CONTROL OF INTERNATIONAL TRADE

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PREFACE

This book is the result of two years research carried out with the assistance of the Acland Travelling Scholarship, 1935–6. It was originally conceived as a Report on "The Existing Methods and Tendencies of Quantitative Control of Foreign Trade and Foreign Exchange Control". Emphasis has therefore been placed throughout on the technical aspects of the control of international trade and the administrative problems arising from it rather than on the general effects of this form of government intervention in private enterprise. Although it attempts to give a detailed theoretical analysis of the short-run effects of present day international trade control and although it repeatedly touches on the general results of such control, this book does not pretend to present a full theory of foreign trade regulation.

In compliance with the terms of the Acland Scholarship the author's researches were limited to the continent of Europe. For this reason the material has been drawn almost exclusively from continental sources. The task could never have been fulfilled, however, had it not been for the assistance afforded by many official institutions and private persons concerned directly or indirectly with the control of trade in European countries. While their helpfulness and courtesy were unfailing, their number makes individual expressions of gratitude impossible. Especial thanks, however, are due to the *Oesterreichisches Institut für Konjunkturforschung* in Vienna, the *Institut für Weltwirtschaft und Seeverkehr* in Kiel and the *Schweizer Wirtschaftsarchiv* in Basel for supplying the author with much factual material as well as for the opportunity of fruitful discussion; and to Mr. O. L. Williams (London) for many valuable suggestions during the revision of proofs and for assistance in the preparation of an index.

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H. K. HEUSER.

INTRODUCTION

Since the year 1931, most of the countries of the world have introduced some form of foreign trade regulation. No matter how much the representatives of trade and industry may be opposed to governmental intervention in normal times, private enterprise generally views with favour any assistance which it can obtain from the State during a depression. Under conditions such as prevailed in the world from 1929 until the early "thirties" and in some respects prevail even to the present day, leaders of trade and industry are not unfavourably disposed towards governmental regulation of their activities if the measures introduced offer some slight chance of an improvement in their position. This is true even where the regulations adopted imply a severe restriction of the scope of their initiative and enterprise.

The regulation of foreign trade has indeed always occupied a peculiar position in this respect. In so far as the limitation of foreign competition benefited interests more powerful than those which it harmed, such intervention came to be regarded as a State duty rather than a usurpation of rights by the State. Furthermore, this interference has—except in early mercantilist days—generally been of a kind designed to guide economic activity in certain directions rather than to regulate it. It may be partly on account of this more favourable disposition towards State intervention in international trade than towards the same activity in other fields of economic life, that the new forms of foreign trade control have been accepted with so little opposition on the grounds of principle.

The methods of foreign trade control with which we shall deal in this inquiry, however, are not of the kind which lead private enterprise gently along the path of highest profit. They are measures which interfere directly with the individual, restrict the scope of his activity and threaten with punishment anyone who attempts to substitute his own decisions for those of the State.

The number and excellence of existing treatises on the traditional method of influencing the volume and direction of international trade, namely by customs tariff, make unnecessary the consideration of this form of interference with international

commodity exchange. Throughout this inquiry, therefore, our attention will be concentrated on the two new additions to the arsenal of international trade warfare: quotas and currency measures.

Although both these forms of trade regulation have been applied in all parts of the world, we shall in this study deal only with restrictions imposed by the countries of Continental Europe. As far as currency measures are concerned, the scope of the inquiry has been limited to those restrictions within the general systems of exchange control which directly affect trade in commodities. This necessarily means that when we come to discuss the effects of foreign trade control by currency measures, we may only deal with those consequences of regulation which can be attributed directly to the use of currency measures in the limitation of imports. We shall not deal with all the effects of enforcing an artificial reduction in the number of foreign exchange transactions, to be carried out at officially determined rates.

Throughout the greater part of this inquiry, all problems—whether they be connected with the reasons for restrictions, their technical structure, or their effects on commerce and the community as a whole—are discussed strictly on the basis of the present economic system in Europe outside the U.S.S.R. We shall indicate in the last chapter some of the lessons which may be drawn from the existing systems of foreign trade regulation by those who advocate the complete control of all economic activity.

CONTROL
OF INTERNATIONAL TRADE

PART I

THE CAUSES OF THE REGULATION OF FOREIGN TRADE

Chapter I

GENERAL CAUSES OF IMPORT CONTROL

The term quotas is exclusively applied to the regulation of commodity trade. Exchange control deals with all forms of international economic relations, from the import of raw materials to the expenses of tourists abroad. From this difference in their scope, the general difference between the reasons for introducing the methods of restriction concerned immediately appears. In the first case it was above all desired to limit commodity imports, and thus influence thereby either the conditions of internal economic activity or the value relationship between total commodity imports and exports. In the second case, it was intended to bring under a system of control all items—positive and negative—of the balance of payments, in order to regulate the relationship of all in-payments and out-payments of the country concerned.

Before the actual introduction of quota and exchange restrictions in the summer and autumn of 1931, three major economic changes had occurred which were bound to require considerable adjustment in the countries affected. The first and, from the point of view of general effects, the most important was the relatively greater fall of agricultural prices in the general decline of values during the depression which had begun at the end of the year 1929. The second was the decrease of capital movements into Central and Eastern Europe, and the sudden withdrawal of foreign credits, combined with an expatriation of national funds, from the same group of countries. The third was the depreciation of sterling.

The first and third of these developments directly affected both the creditor and debtor countries of Europe in a way menacing the existing level of economic activity and, to a lesser extent, the stability of their currencies. These two changes contributed above all to the establishment of quota restrictions. The second—a financial disturbance—threatened to exhaust the gold and foreign exchange reserves of the European debtor countries, and therefore to endanger seriously the maintenance

of currency stability, which in many cases had been achieved only a short time before.

It was this second of the three major changes, before and during the depression, which caused the introduction of exchange control, in a desperate effort to stem the tide of the demand for foreign means of payment. Although the direct effect of the withdrawal of credits and expatriation of national funds has been to menace the stability of the currencies of the countries affected, these financial changes did not fail to react in turn on the balances of trade of debtor and creditor countries. In the case of the latter, they led to increased commodity imports, so that while one section of the community was occupied in the repatriation of short-term foreign investments, another section found itself confronted with foreign competition of an ever-increasing intensity.[1] To this effect of the withdrawal of foreign short-term credits and the expatriation of national funds must be added the possibly increased competition in industrial products resulting from the depreciation of sterling. The pressure on commodity prices, which was in many cases the consequence of the financial difficulties, naturally affected all kinds of products. It had its share in the decrease of agricultural prices. Here it has been separated out as affecting industrial commodities, in order to show that this particular financial development was not only responsible for the introduction of exchange control, but was also in part responsible for the establishment of quantitative limitation on a large proportion of the imports of the countries concerned, i.e. on the products of industry.

Apart from the desire to maintain the existing character and extent of the economic activity of large sections of the community and to safeguard, at times, the currency from an alleged menace to its stability, quotas have been used as an instrument of reprisal against similar regulations in foreign countries. Exchange control, on the other hand, though primarily introduced with the purpose of equating demand and supply of foreign exchange at the existing rates without allowing gold movements to take place, has been employed to protect individual industries.

[1] It would lead too far away from the scope of this inquiry to go into all the connections between capital movements and changes in the value relation between imports and exports. Suffice to add that, apart from the ordinary increase in commodity exports resulting from an export of capital, a flight of national capital may be carried out in the form of commodity exports sold abroad at prices making the expected loss at home equal at the margin to the loss abroad (resulting from the necessarily lower price as the quantity offered rises).

An unequivocal distinction between the two methods, with respect to the objects of their introduction, is thus not possible. It may, however, be maintained that, while the major purpose of quotas was the protection of domestic economic activity, the maintenance of currency stability constituted the main task of exchange control.

As a result of exchange control proper (i.e. a system whereby all transactions in foreign means of payment are placed in the hands of the monetary authorities, and carried on at the established par or other *officially* determined rates), there developed a new system of settling international accounts, called "exchange clearing". Within the scope of the present inquiry it has been found convenient to treat exchange control and exchange clearing together in one section. Both interfere directly with international exchanges by regulating, in some way or other, the payment part of international transactions. Both belong thus to the financial side of international trade, while quotas, on the other hand, by dealing only with the nature and amounts of import commodities, leave the method and act of payment to the individual. "Exchange clearing" has grown out of exchange control, and is operated in conjunction with it, but is generally entirely independent of quota regulations. This is a further reason why it seems reasonable to deal with quantitative regulations on the one side, and exchange control and exchange clearing on the other.

A convenient starting point for a study of the reasons for regulating foreign trade is an inquiry into the origin of the import quota. The conditions which have led up to the introduction of exchange control are dealt with in Chapter VI.[1]

[1] See pp. 64–71.

CHAPTER II

QUANTITATIVE PROTECTION OF ECONOMIC ACTIVITY

Scrutiny of a full list of quantitative limitations of innumerable import commodities of a particular country might give an unbiased reader the impression of a scientifically drafted piece of economic planning. The exact statements concerning the number of pigs, the quintals of rye, or the quantities of telescopes which shall be imported into a particular country have an outward appearance of the most careful concern for the needs of the people on the part of some central planning committee. A study of the actual reasons which have induced the respective authorities to decide on the limitation of particular articles shows, however, that the existing lists of import quotas are far removed from a plan. The main motive for the establishment of quotas has, in general, been the very respectable one of protection: protection on the ground of major politico-economic considerations, such as the protection of agriculture in France or to a lesser extent in England, and secondly, protection of vested interests in industry. All other reasons for the establishment of quotas are generally ancillary, and frequently of the nature of official subterfuges.

Inquiry can now be made into those causes which may conveniently be grouped under the heading of the protection of domestic economic activity. In the first chapter it had been mentioned that it was primarily the fall of the prices of agricultural products, the depreciation of sterling, and the withdrawal of capital funds from European debtor countries which caused the introduction of quotas. These developments affected various countries in different ways. *The relatively greater decline of agricultural prices* during the depression menaced the domestic agricultural production of the countries importing agricultural produce, and tended to endanger the stability of the currencies of those countries whose chief export articles were agricultural.[1] In the case of producers and *importers* of agricultural products,

[1] The adjustment to a sudden fall in export products without large movements of gold is, under normal conditions, easier for an industrial than for an agricultural country. When, however, exporters' incomes have fallen to such an extent that supply increases with a fall in price, agricultural countries are individually in a more advantageous position because of the more " perfect " market for their products.

a fall in agricultural prices will necessitate increased protection if the existing incomes and activity of the agricultural section of the community are to be maintained. In the case of producers and *exporters* of such commodities other drastic measures—either limitation of imports or of all out-payments (exchange control)—need to be introduced if the menace to the currency is to be obviated. The present section deals with the countries of the first category, i.e. with those importing, rather than exporting, agricultural products. The chief countries which began the quantitative regulation of imports by introducing quotas on agricultural products were France and Belgium.

The remaining changes preceding the establishment of import restrictions were the *depreciation of sterling* and the *increased exports following upon the withdrawal of credits* and the *flight of capital* from the European debtor countries. Again, as in the case of the fall of agricultural prices, these two developments led to the introduction of trade restrictions for different reasons in different countries. The difference between various countries affected by these two developments is, however, not so pronounced as in those affected by the fall of agricultural prices. Exchange control became necessary or desirable as a result of the fall in the value of sterling if, as in a country like Finland, many people had to meet debts in sterling, and therefore rushed to pay these off in the anticipation of a subsequent appreciation of sterling: or, if in order to maintain a comparatively secure market, it appeared to be desirable to direct purchases in the direction of Great Britain to a greater extent than would have been the case in the absence of exchange control, as for example in the case of Denmark.

On the other hand, increased protection against cheapened industrial products of Great Britain appeared necessary in those cases where it was desired to maintain the existing nature and extent of activity of the industrial sections of particular countries, as became the case in France, Belgium, Holland, and Switzerland. When the withdrawals of credits and the flight of capital caused a struggle for liquidity in the countries most severely affected by the financial crisis, the stocks of goods available for export at lower prices tended to increase relatively. The increase in the offers of industrial products which arose thus, particularly from Germany, during and prior to the outbreak of the financial crisis in 1931, necessitated increased protection for the same reasons as in the case of Great Britain's relatively improved export position. The present chapter deals with the

second category of countries, i.e. those which introduced quota restrictions on industrial products primarily in order to protect their own industrial activity; namely France, Belgium, Holland, and Switzerland.

In the countries where the real reason for the introduction of quantitative import regulations may be shown to have been the protection of domestic agriculture or industry the authorities at times attempted to justify their restrictive policies by pointing to an unfavourable tendency in the balance of trade as a menace to the stability of the national currency. Although a deterioration of trade balances contributed to currency instability in a number of countries in South-Eastern Europe the facts indicate clearly that protection was the *original*[1] motive for the introduction of import quotas in France, Belgium, Holland and Switzerland. The present chapter, then, is devoted to a historical description of protective quotas while the whole question as to what extent the currency argument for import restrictions was justified in 1931 will be considered in Chapters III and IV.

The following pages will deal first with the increases of imports into the most important of the countries which introduced quantitative import restrictions. A chronological treatment —within each major group of commodities—of the actual quotas established is believed to be best suited to give a preliminary picture of the scope and extent of this type of import restrictions. In view of the existing treatments of the French system,[2] particular attention will be paid to countries other than France. Once the facts of the causes which led to the desire for increased protection have been shown, the reasons for the choice of quotas in preference to tariffs will be considered.[3]

The increase in the imports of agricultural commodities was particularly striking in the cases of *France* and *Belgium*. Not only did the quantity of products of food and drink imported into these countries rise, but the share of these commodities in the total value of imports also showed an increase. In the other countries which later introduced quantitative import limitations on these

[1] When the number of those countries which devaluated their currencies or introduced premium systems similar in effect increased, the *maintenance* of quotas may also have been necessary for currency reasons. This would not seem, however, to vitiate the conclusion that their *introduction* had in many cases little to do with the value of the respective currency.

[2] F. A. Haight, *French Import Quotas*, London, 1935. P. Angelini, *La Politique des Contingentements des Importations*, Paris, 1932. Lautman, *Les Aspects Nouveaux du Protectionisme*, Paris, 1933. P. Tomitch, *Contingintement et Commerce International*, Paris, 1934.

[3] See pp. 48–53, Chapter V.

TABLE I.

	France					Belgium				Holland					Switzerland				
	II	Tons	III	IV	V	II	Tons	III	IV	II	Tons	III	IV	V	II	Tons	III	IV	V
1929.	19·6	6,669	51·7	15·3	—	20·4	3,495	52·2	27·0	20·5	3,885	37·6	40·6	1·1	25·3	1·600	28·1	41·9	4·2
1930.	17·4	6,185	43·0	19·4	19·1	21·9	3,504	46·9	30·1	19·7	4,080	35·3	43·0	1·7	24·7	1·773	25·9	42·4	5·3
1931.	20·5	8,877	28·4	15·4	34·1	23·0	4,532	45·9	29·4	15·4	4,645	26·2	33·9	24·3	17·4	2·002	16·7	30·0	34·8

The main classes of products have been numbered according to the Brussels International Convention :—

I. Animals (not shown here).
II. Food Products.
III. Raw Materials and Half-finished Goods.
IV. Finished Products.
V. Gold.

Quantities are shown in 1,000 metric tons.

products, the increase of the commodities in question was not so pronounced; in value terms it even decreased relatively to the expenditure on other foreign products. The table on page 9 shows the percentage distribution between classes of imports (in value terms) and the quantitative increase in the case of food products.

In the case of *France*, an export surplus of certain agricultural products in 1929 turned into an import surplus in 1931, or an existing import surplus increased. M. Augé-Laribé, late *rapporteur-général agricole* of the Congrès de l'Industrie et de l'Agriculture Française, selected the following figures [1] :—

Cheese	1929 import surplus of			47·457	quintals
,,	1931	,,	,,	224·764	,,
Butter	1929 export	,,	,,	31·612	,,
,,	1931 import	,,	,,	135·172	,,
Eggs	1929 export	,,	,,	72·585	,,
,,	1931 import	,,	,,	320·481	,,
Animals	1929 export	,,	,,	262·818	,,
,,	1931 import	,,	,,	1,490·833	,,
Fresh Vegetables	1929 export	,,	,,	81·562	,,
,, ,,	1931 import	,,	,,	299·486	,,

Further figures cited by Angelini [2] show that wood increased by 30 per cent in 1931 over an average of the five preceding years, wine from 12,700,000 quintals to 17,400,000 quintals, and that the quantity of imported table fruit more than doubled from 1929 to 1931.[3]

The main period of import restriction in France began in August, 1931. For the sake of completeness, two preceding decrees establishing control over the imports of nitrates, coke, and flax, must, however, be mentioned. The official reasons for subjecting the first two products to regulation were couched in very general terms [4]; they were probably political. The decree limiting the quantity of flax which could be imported during a given period of time (*Journal Officiel*, 18th July) constituted the original formula of the quota.[5] The first important restriction was, however, that on wood and wine [6] at the end of

[1] See his article in *Europe Nouvelle*, April 16, 1932.
[2] Op. cit., p. 114 *et seq.*
[3] For further selected material in this connection, see Haight, op. cit., pp. 43–8.
[4] See *Journal Officiel*, 7th May: "Article 1: En vue d'assurer la sauvegarde des intérêts vitaux du pays et à titre temporaire, l'importation des engrais azotés est subordonnée à la délivrance d'autorisation." For the control of certain fuels (lignite, coke, briquettes, oils) see *Journal Officiel*, 15th–16th July, 1931.
[5] See Chapter VIII.
[6] 28th August, 1931; tariff items 128, 128 *bis* and 597, 600.

August; it was followed four weeks later by restrictions on cattle and certain meat and dairy products. In November, mutton, rabbits, poultry, eggs, and flowers were subjected to quota restrictions; sugar in December; fish, plants, and fresh fruit in March, 1932.[1] This was the first batch of agricultural products to be restricted; further limitations of such products followed, until by the end of 1936 practically all agricultural commodities were limited by quotas.

In the case of *Belgium* the increase in the quantity of agricultural products imported was hardly less marked than in the case of France: from about 35 million metric quintals in 1929 it rose to more than 45 million metric quintals in 1931.[2] The following list of commodities and of their quantities imported in 1929, 1930, and 1931 respectively, may illustrate the development here:—

	1929.	*1930.*	*1931.*
	(In 1,000 metric quintals.)		
Animals:			
Poultry	3·9	9·8	23·7
Cattle	71·5	209·4	244·0
Food Products:			
Meat, fresh	532·9	598·6	720·5
Meat, conserved	77·5	85·9	51·0
Fats	185·3	212·5	155·0
Milk	24·4	33·8	40·9
Butter	43·6	102·7	188·6
Eggs	18·4	19·6	17·8
Fruit	857·4	1,283,3	1,487·5
Dried Vegetables	—	255·4	571·6
Cereals:			
Wheat	11,780·9	12,074·5	14,722·1
Rye	255·5	721·8	1,750·7
Maize	585·3	586·0	8,373·9

With the exception of conserved meat and fats, all important articles of food showed a continued rise through the years 1929–1931. The majority of these products, in spite of continued opposition[3] on the part of the industrial section of the community, were subjected to quantitative limitations. Like France, Belgium had attempted to reduce the imports of cheaper food products through increases of existing tariff rates. Thus—although a law enabling the Government to establish quotas had been passed six months previously[4]—the rates on butter and

[1] For an almost complete list, see Haight, op. cit., p. 124.

[2] All information concerning movements of Belgian foreign trade has been obtained from *Union Economique Belgo-Luxembourgeoise, Tableau Annuel du Commerce, Ghent.*

[3] See p. 13.

[4] Law of 30th June, 1931.

margarine, beer and bananas,[1] were increased in December, 1931.

The first Belgian quotas on agricultural products restricted imports of cut flowers and certain kinds of bulbs on 2nd May, 1932. A week later, a number of food products containing or made of corn were subjected to quota restrictions; fish followed in June; grapes, apricots, peaches, and plums in July; and sugar in August of the same year. By the end of 1932 all the products limited by quota were agricultural, with few exceptions.[2] Although Belgium was among the first countries to enable its Government to decree import quotas, it was one of the last to introduce this system of import regulation effectively. This period began in May, 1933. Again, by far the majority of the commodities affected was agricultural and only in 1934 did Belgium resort to quotas for industrial products to a considerable extent. A decree, then, of 22nd May, 1933, restricted quantitatively the imports of live animals (cattle, sheep, pigs), all types of meat as well as sausages and canned products, and finally milk and cream in order to prevent evasion of the butter quota.[3] Although there existed an increased tariff on butter,[4] the agitation on the part of the *Flamische Boorenbond* for further protection was strong enough to induce the Government to introduce a quota on this product. A quota for fresh vegetables was introduced in June. Potatoes and eggs were restricted in July, while imports of cheese and wheat (and its products) were limited quantitatively in October, 1933. Further quotas for agricultural products were introduced in the course of 1934 and 1935,[5] so that by the beginning of 1936 a large proportion of all agricultural products came within the scope of the quota.

[1] The tariff on bananas seems to have been introduced in order to further the interests of Belgian fruit-growers. From the history of Belgian quota restrictions it would appear that horticulturalists of this country have been particularly anxious to obtain the reduction of imported foreign substitutes. Thus, after the tariff on bananas had been increased, a quota on other French tropical fruit was considered (see *Industrie und Handel*, 21st July, 1932).

[2] As in the case of France, the very first decrees regulating foreign trade affected nitrates (17th August, 1931) and coal (8th October, 1931). Shoes followed in March and felts in September, 1932.

[3] See *infra*, on the problems of evasion, and for other examples of it, pp. 231–2, Chapter XV, on "Further Problems of Quantitative Import Control".

[4] See *supra*, p. 18.

[5] By April, 1934, in addition to the commodities mentioned in the text, lettuce, hides, and pelts had been limited; live horses, further vegetables and fruit and certain fats were put under quota restrictions in 1935.

In Belgium, more than in other countries, it was above all the agricultural section of the community which demanded quota protection. Although certain manufacturing industries have successfully applied to the Government for the quantitative limitation of the imports of foreign competing products,[1] the bulk of the opinion of Belgian industry has continually opposed the introduction of further quotas.[2] The reasons for this attitude are not far to seek. While Belgian agriculture as a whole sells about 95 per cent of its produce at home, industry sells between 40 per cent and 80 per cent abroad.[3] Higher prices of food products make internal wage reductions difficult, and it was feared that agricultural countries would in turn restrict imports of Belgian industrial products.

The volume of agricultural imports into *Holland* increased by little more than 20 per cent from 1929 to 1931[4]; i.e. by less than in France (where it rose by about a third), or Belgium (where the increase in the quantity imported amounted to about 30 per cent). In value terms all imports, agricultural and industrial, decreased during the period in question; only the imports of gold showed a considerable absolute and relative increase. As to the other products, the main competition of foreign products arose in the industrial field.[5] Nevertheless, in a number of cases the increase in the quantity of agricultural imports gave rise to anxiety, and the first quota to be established in Holland also affected an important food product—meat.[6] Before meat imports were restricted at the end of January, 1932, it was rumoured that a great number of other agricultural products were to be limited. From 1930 to 1931 there had been heavy increases in the imports of butter, potatoes and grapes, as well as in certain cereals and in bread, across the Belgian frontier. The imports of bread were only subjected to a quota at a much later date, and for the time being the Government also refused to comply with the wishes of those who desired the introduction of a restriction on oats.[7] The main agitation for

[1] See *post*, p. 23.

[2] See *Industrie und Handel*, 10th August, 1934, and an interesting article, stressing the variance between the interests of agriculture and industry, in the *Hamburger Fremdenblatt*, 11th January, 1935.

[3] See Henri de Man, *Revue Economique Internationale*, 1934, pp. 256 *et seq.*, review article on the report of the Theunis Committee on the Belgian National Economy.

[4] See table, p. 9.

[5] See *post*, p. 24.

[6] Fresh and frozen beef and veal—Royal Order of 23rd January, 1932, See *Verslagen en Mededeelingen*, 1932, p. 16, No. 3: *Nota betreffnede de gevoerde contingenteeringpolitik en hare gevolgen.*

[7] See *Industrie und Handel*, 2nd May, 1932.

quotas came from industry. Agriculture was already protected enough.

The situation in *Switzerland* was similar to that in Holland. The quantity of agricultural produce imported into the country in 1931 exceeded that of 1929 by 25 per cent[1], although the proportion of the total amount spent on imports which was devoted to foreign products of food and drink decreased from 25·3 per cent in 1929 to 17·4 per cent in 1931.[2] The fact that gold imports increased from a little over 4 per cent in 1929 to almost 35 per cent in 1931 helped, as in the case of Holland, to reduce the percentage share of agricultural as well as of other products.

The main reason for the increases in protection in Switzerland was the rise in imports of half-finished and finished manufactured goods. In comparison with the number and importance of industrial articles which were subjected to quota restrictions, the degree of agricultural protection in Switzerland was small during the early stages of the regulation of foreign trade in that country. By 1935–6, the protection of industry was considerably more extensive than that of agriculture.

What then were the agricultural commodities subjected to quota control in Switzerland, and what were the reasons for protecting their respective producers ? The law empowering the Swiss Government to introduce emergency restrictions on imports was based on a number of general considerations dealing with the entire economy of the country. Within this general basis of the new Swiss Protectionism, there were, however, certain specific causes which led to the introduction of import regulations for particular products. As in the case of France, wood constituted the first important agricultural commodity to be subjected to a quota in Switzerland. The fact that in both countries local governments derive a considerable proportion of their revenue from communal forest-lands may well have had something to do with the priority of this commodity in the list of restricted products. According to the first Report of the Cabinet to Parliament concerning the limitations of imports which were to be introduced in accordance with the general law of 23rd December, 1931,[3] the imports of certain types of wood had increased as follows :—

Tariff No.		*1927.*	*1931.*
		(in quintals)	
230	Coniferous round wood .	1,202,078	2,076,000
237	Boards	592,000	982,000

[1] See table, p. 9. [2] *Ibid.*

[3] See *Bericht des Bundesrates an die Bundesversammlung über die Massnahmen gemäss Bundesbeschluss vom 23. Dezember 1931 über die*

A tariff quota on certain kinds of wood [1] was followed, in the second ordinance upon the general law, by a quota on eggs.[2] In the case of this commodity the quantity of imports had increased from 11·5 thousand metric tons in 1928 to 15·6 thousand metric tons in 1931.[3] After the quota for eggs, still within the first half-year of the quota regime, the protection of agricultural commodities was extended to vegetables. The protectionary object was clearly expressed in the statement of the reason for introducing a tariff quota for tinned peas.[4]

The home embroidery industry had been particularly hard hit by the depression, as was natural in the case of an industry manufacturing mainly luxury products. With the help of the Government the sub-marginal producers in this branch of the textile manufacturing industry had shifted to vegetable-growing as a reasonably profitable alternative to their former occupation.[5] Small wonder that they were spared a further adjustment when increased imports of canned vegetables threatened to dry up their new source of income. Similar reasons lay behind the Government's later decision to restrict the imports of silver fox pelts,[6] for in certain mountain cantons farmers had taken

Beschränkung der Einfuhr, doc. 2798, 29th February, 1932, hereinafter referred to as Official Reports, Nos. I, II, etc.

[1] The original tariff quota on coniferous wood was extended to fuel wood and boards during the period May, 1932 to September, 1932 (see Official Report III, 12th September, 1932, doc. 2866, p. 473). Pulp wood was subjected to quota restrictions between November, 1932 and March 1933; see Official Report V, doc. 2929, published in *Bundesblatt*, vol. i, 29th March, 1933, p. 437 *et seq.*). A quota on plywood (see Official Report VIII, doc. 3081, *Bundesblatt*, vol. i, 7th March, 1934, p. 365 *et seq.*) completed the list of restrictions on wood imports in 1934.

[2] See official document 2798, pp. 19–23.

[3] Eggs: Imports into Switzerland.

	Value (1,000 *Fr.*)	*Volume* (1,000 *metric tons*)
1928 . . .	26	11·5
1929 . . .	29	12·2
1930 . . .	28	13·8
1931 . . .	29	15·6
1932 . . .	23	16·8

(Figures from League of Nations Publication on International Trade Statistics, 1932–33.)

[4] See Official Report II, doc. 2836, 27th May, 1932, reprinted in *Bundesblatt* of 1st June, 1932, p. 937.

[5] Aided shifts of this nature often turn out to be mal-investments. In the present case it is, however, quite obvious that the effects of possible over-production (at ruling prices) were seriously aggravated by the unanticipated increase in the intensity of foreign competition.

[6] See Official Report VIII, doc. 3081, *Bundesblatt*, 7th March, 1934, vol. i.

to fox farming in an attempt to make up for the lower prices of wood. An existing tendency towards horticulture was fostered by restrictions on the imports of certain tree plants and fruit.[1] Further agricultural commodities where the object of protecting the home producer was officially stated included fresh fish,[2] seed potatoes,[3] dried milk,[4] and honey.[5]

In the cases of the agricultural products enumerated so far, the principle of direct protection of the producers lay behind the introduction of restrictions. As has already been mentioned, certain general considerations affecting the entire national economy played a predominating part in influencing the decisions of the Swiss authorities concerning the products which were to be subjected to quota regulations. These considerations found their application in restrictions on a number of important manufactured goods.[6] However, since the majority of import products limited in conformity with this general policy were agricultural it may be well to touch upon it at this stage.

The elaborate proposals of the Swiss Cabinet concerning the introduction of emergency import restrictions,[7] sought effect in a law passed on 23rd December, 1931. Article 1 of this law reads in part as follows :—

> "For the purpose of protecting national production in so far as its vital interests are threatened and particularly in order to combat unemployment, the Government may, in the general interest of the country, exceptionally and temporarily restrict the importation of certain goods to be defined, or make such importation dependent upon permissions the conditions of which shall be laid down by the Government."

The subsequent history of Swiss quota protection shows that the original intention "to combat unemployment" has never been lost sight of. The official reports of the Government abound in cases where a quota restriction has been introduced in order to protect small industries employing frequently less than 500 men. The concern with which such industries were treated

[1] Further plants were put on the quota list in the first half of 1933 (Official Report VI, doc. 2970, 2nd June, 1933), as well as cut flowers. Dried fruit was added to the quota list early in 1935 ; see Official Report X, *Bundesblatt*, 27th March, 1935, p. 445.

[2] Official Report III, doc. 2866, *Bundesblatt*, 14th September, 1932, p. 467.

[3] Official Report V, doc. 2929, *Bundesblatt*, 29th March, 1933, p. 437.

[4] Official Report VIII, doc. 3081, *Bundesblatt*, 7th March, 1934, p. 365.

[5] Official Report IV, doc. 3159, *Bundesblatt*, 5th September, 1934, vol. iii, p. 175.

[6] See *infra*, pp. 21–3.

[7] See *Botschaft*, 14th December, 1931, doc. 2777.

by the Foreign Trade Section of the Department of National Economy reveals a singular mistrust in the possibilities of adjustment within the Swiss economic system. A later stage of this inquiry shows how the establishment of quotas has " encrusted " the economy even more and increased the difficulties of adjustment to world conditions.[1] For the present let us see what attempts have been made with a view to achieving the general object of protecting the *existing* extent *and* character of economic activity.

The main principle has been the bargaining of imports in exchange for exports, i.e. a discrimination in favour of countries prepared to take Swiss export goods.[2] It is of course rarely possible to distinguish unequivocally between different motives for import restrictions. Leaving aside the possibility of competition from foreign substitutes, the object of " compensation "[3] appears to be the true motive of restriction only in cases where the commodity in question is not produced at home. Without the intention of misleading the public, the authorities usually have given that reason for the quota which *at the time of its introduction* was the predominating one; the subsequent maintenance of the limitation throughout a number of years may well have been protectionary, although initially it was imposed in order to extract export concessions from a foreign country.

In Chapter I a distinction was made between three main motives for import restriction in 1931, namely (1) the protection of internal economic activity; (2) the protection of the currency; and (3) external commercial policy. Although a large number of Swiss quotas was designed to safeguard domestic economic activity indirectly through their results in foreign commercial policy it has been found convenient to include these cases of quantitative limitation in the present chapter. For in Switzerland it was expressly stated by the Government that the object of foreign commercial policy was to safeguard domestic economic activity. Hence it may be said that Swiss commercial policy, by means of quotas, differ from the same use of quotas in other countries, where the maintenance of employment has not always been the conscious object of external commercial policy.[4]

[1] See Part II, Chapter XII.

[2] See pp. 18 ff. for further analysis of this system of protection and its application in other countries.

[3] The word is here used to denote the *quid pro quo* principle of import-export concessions, rather than the system of individual transactions which developed as a result of exchange control.

[4] See Chapter IV on " Foreign Commercial Policy ".

The first set of agricultural commodities restricted partly with a definite foreign commercial policy in view included all important cereals.[1] In this connection, the example of rice is particularly striking. It is, however, difficult to imagine how the Swiss demand for this commodity could possibly have been large enough to be used in the bargaining for export outlets. The official reasons given for the limitation of imports of poultry [2] were also those of foreign commercial policy; the restriction was to affect "only certain countries whose balance of trade *vis-à-vis* Switzerland was active, and which have harmed (Swiss) exports through exchange control". By restricting the imports of pulp-wood, also, it was hoped that compensation arrangements assisting certain Swiss exports could be made.[3]

Apart from direct protection and attempts to maintain employment in the export industries, wherever possible, by using quotas as a weapon of external commercial policy, the quota has also been employed in cases where the restriction of imports of certain commodities could assist certain internal commercial policies other than simple protection of a particular product. Three examples may suffice to illustrate that the establishment of quotas in Switzerland has at times actually been part of some isolated piece of economic planning.

The first of these cases concerns the official maintenance of a minimum price of milk. Through governmental control this price had been kept at a singularly high level. The production of milk thereupon increased to such an extent that it was feared that a drop in the price would have to be allowed in order to sell the increased quantity. The suggestion of such a move was, of course, strongly opposed by the dairy farmers, and rather than allow this first step of relaxation of the existing price control to be taken, they agreed upon an increase in costs brought about by a restriction on the importation of fodder products. It was hoped that the resulting increase in the price of a factor of production would squeeze out marginal producers and thus help to increase or maintain the existing price of the finished product. In the words of the official report,[4] "we are thus concerned with the unusual case in which an import limitation

[1] See Official Reports II and VI.
[2] See Official Report III, p. 471.
[3] See Official Report V, p. 440 of *Bundesblatt*, 29th March, 1933.
[4] Oil-cakes, etc., were subjected to a quota during the summer of 1932: see Official Report III, doc. 2866, p. 475 of *Bundesblatt* No. 37, 14th September, 1936.

is demanded by the consumers themselves of the product concerned."

In connection with the internal fiscal programme, a quota was established for wine in the wood at the beginning of 1934. Since the intention to tax all foreign and domestic wines in Switzerland was known, an increase in imports before the tax became effective was expected. In order to avoid a possible reduction of revenue, imports were restricted, i.e. in this case forced to spread over a longer period, so that they might yield the expected revenue.[1]

The third case where a quota was established in connection with a definite, though isolated, economic plan was the limitation of the imports of caseine for technical purposes. Sales of Swiss cheese were diminishing both in the home and export markets. It was therefore expected that the production of butter and consequently the supply of skimmed milk would increase. This relative increase in the supply of skimmed milk might easily have resulted in increase in the raising of pigs. Such an increase was, however, considered highly undesirable because of price considerations. Furthermore, an increase in pig production would not have necessitated the employment of further labour. The problem was therefore to make some alternative use of skimmed milk profitable, a use which would tend to absorb some unemployed labour, no matter how small the number of workers taken on. Such an alternative use of skimmed milk was found in the production of caseine. But, in order to make farmers sell their milk for this purpose, instead of feeding it to pigs, the price offered to them had to be increased. This in turn could only be done by limiting the imports of caseine, so that the higher price might enable the producers of caseine to pay a better price to the suppliers of skimmed milk than the producers of pigs. In order to bring about this higher price a quota was established.[2]

Another country where agricultural products have been limited by quotas in order to protect domestic production is *Latvia*. Although the official reason given for the introduction of import restrictions were partly connected with exchange control, it was declared that " since export industries can no longer compete abroad, the internal market

[1] See Official Report VIII, doc. 3081, *Bundesblatt*, 7th March, 1934, vol. i, p. 368 *et seq*.

[2] See Official Report XI, doc. 3292, *Bundesblatt*, 18th September, 1935, vol. ii, pp. 241 and 265.

must be reserved for them ".[1] Thus, after a number of tariffs had been increased in July, Latvia joined the group of quota countries on 15th October, 1931,[2] and included in the first list of quantitative limitations all kinds of meat and fats. Barley and oats followed in November.[3] In Latvia, however, the quantitative method has not been used consistently. After about half a year of quotas, tariffs were increased and quotas abolished on a large number of products [4]; in 1934 a combined system of quotas, licences, and tariffs was re-introduced, a system which became gradually one of exchange control rather than quantitative regulation of foreign trade.

It remains now to deal with the quantitative restrictions which have been placed on the importation of *manufactured products*. The chief reasons for increased imports of industrial products into a number of countries were (*a*) the decrease in the supply of credit which tended to force exports of a number of central European countries—particularly Germany—and (*b*), the depreciation of the British pound which stimulated British imports into the countries which had remained on the gold standard. For the present we shall mainly be concerned with purely protectionary quotas, leaving the restrictions which were designed to safeguard the currency to be discussed at a later stage of the inquiry.

While France and Belgium at the beginning of their quota regimes defended themselves particularly against rising agricultural imports, Switzerland and Holland are the most important cases of the countries which limited primarily the imports of manufactured commodities. In both countries the increased exports of Germany as a result of Brüning's deflationary policy and the stimulus given to British exports by the depreciation of sterling were alternatively alleged by the authorities to necessitate increased protection.

Quantitative limitation of industrial products was carried very far in *Switzerland*. There were indeed few manufactured articles whose protection was not at some time of other considered in the national interest. While in the case of raw materials and certain food products the principle of limitation with a view

[1] See *Industrie und Handel*, 6th November, 1931.
[2] See *Industrie und Handel*, 17th October, 1931.
[3] See *Industrie und Handel*, 6th November, 1931.
[4] According to *Industrie und Handel*, 17th March, 1932, it was believed that the authorities found themselves unable to carry out the elaborate system of a total quota regime.

to exerting pressure on foreign governments found extensive application, almost all quotas on manufactured products were put there for purely protective reasons. The important exception to this general rule is the restriction on imports of automobiles and photographic articles. At the time of the introduction of the automobile quota the government made it clear that it had no intention of assisting in the establishment of a Swiss motor industry. In the VIIth Official Report on Import Restrictions (September, 1933) we may read :—

> " We (i.e. the government) are fully conscious of the difficulties connected with the extension of the compensatory system of imports. On the other hand, our exports are impeded to such an extent abroad that we do not consider it to be in the interest of the country to permit the very considerable imports of motor cars without obtaining compensatory export concessions." [1]

In other words, the importation of automobiles was restricted for reasons of foreign commercial policy in the attempt to maintain domestic employment in other industries.[2] Similar reasons were advanced in connection with the restrictions on foreign photographic articles.[3] The official report dealing with this matter expected that the inclusion of these products in the class of commodities restricted for reasons of foreign commercial policy would be particularly successful on account of the intense international competition on the supply side.

In all other cases of the Swiss quantitative restrictions on foreign manufactured products, the necessity of protecting industries in order to maintain the existing level of employment was given as the reason for their introduction. The authorities were particularly anxious to avoid the necessity of further occupational changes in cases where some technological adjustment

[1] See Report VII, published in *Bundesblatt* No. 39, vol. ii, 27th September, 1933 ; official document 3003. The original pronouncement read thus : " Wir sind uns der Schwierigkeiten dieses Vorgehens (Ausbau der Kompensationsgeschäfte) wohl bewusst, doch stossen unsere Wirtschaftskreise gegenwärtig auf derartige Hemmnisse im Export, dass es nicht angeht, die sehr bedeutenden Autoimporte kompensationslos in unser Land zuzulassen."

[2] Ibidem : " Wenn wir trotzdem (i.e. in spite of the non-existence of a motor industry) nach reiflicher Prüfung des ganzen Fragenkomplexes dazu kamen, die Kontingentierung aller Autos . . . zu beschliessen, so waren für dieselbe vor allem handelspolitische Erwägungen wegleitend."

[3] See Report VIII, published in *Bundesblatt* No. 10, 7th March, 1934, vol. i ; official document 3081.

to the changes in demand had already taken place. As noted earlier, such considerations have also entered into the choice of the agricultural commodities to be restricted.

An example in the industrial field is the quota for wicker furniture. A large number of unemployed silk workers were said to have learned the new trade of wicker work. In order to protect this newly-founded and largely domestic industry, the importation of wicker furniture was limited in the second half of 1932.[1] Other unemployed textile workers had been absorbed by an extension of the production of automobile tyres. Increased imports at lower prices threatened the existence of the industry and again a quota was established to spare the formerly unemployed textile operatives further occupational shifts.[2]

At the beginning of the Swiss quota restrictions the authorities carefully selected the products which in their opinion deserved protection from foreign competition. Requests on the part of domestic industries for import limitations poured in as soon as the new policy was announced. But, according to the government's reports, only a fraction of the total demand was satisfied.[3] Once the protection of domestic industry got under way it was no longer possible for the government to refuse to one producer or group of producers what it had granted to others. It seems that the selection principle was given up entirely as time went on, so that by 1935 virtually every branch of Swiss industry was protected by quotas on the foreign product.[4] The fact that 100 or 200 people were employed in the production of a particular article was often considered sufficient reason for protection. The later official reports abound in examples of the protection of such extremely small industries.[5] A quota was thus introduced for celluloid lids and other small celluloid articles

[1] See Report III, published *Bundesblatt* No. 37, 14th September, 1932, p. 467 ; official document 2866.

[2] See Report VI, 2nd June, 1933, pp. 2–3 ; official document 2970.

[3] See Report I, 29th February, 1932, p. 2 ; official document 2798. The first two ordinances on import restrictions established tariff quotas for furniture, "luxury articles," blankets, and all kinds of finished cotton and silk goods.

[4] With a few notable exceptions, such as part of the textile industry and the manufacture of trucks, buses, and some agricultural machinery, Switzerland has specialized in a large number of light mechanical industries and other skilled manufactures.

[5] For example, the protected piano industry employed no more than 100 workers (VIII Report, doc. 3081) *Bundesblatt*, 7th March, 1934, vol. i, p. 371.

in the manufacture of which 300 to 400 people were employed.[1] Another restriction of this type was the quota on speedometers in order to keep approximately 200 people at work in making them.[2]

Protection in Switzerland was thus carried to extremes not attained in the other important quota countries. Frequently the existing industry consisted of a single firm[3] so that the restriction (when and in so far as its extent was known) put such firms into an almost completely monopolistic position. In order to put a check on the increase in prices which would tend to result from the limitation on imports, the Swiss government frequently made the maintenance of limitation dependent on a declaration on the part of the producers concerned not to raise their prices, unless costs justified such action. As will be seen,[4] prices *were*, in fact, raised in many cases, since producers were frequently able to show that just before the introduction of the quota they were operating at a loss. But even if prices remained stable, it often meant that they were too high in relation to those ruling abroad.

As already noted in connection with the quotas on agricultural products introduced by *Belgium*,[5] industry on the whole was opposed to quantitative import restrictions in that country. Quotas on agricultural products tended to lead to higher costs of living and therefore to demands for higher wages. The introduction of quantitative limitations on manufactured products was considered unnecessary because Belgian industries were able to compete,[6] or was thought to be a dangerous policy because of the possibility of foreign reprisals against Belgian exports. Nevertheless, some industries felt the increase of foreign competition and therefore asked the government for protection.

The coal industry particularly was hit hard by the increase

[1] See Report VII.

[2] See Report VIII. Although tariff protection had been increased in March, 1932, imports of this article during 1933 had risen to 3,168 (442 in 1932).

[3] Examples: sewing machines, mechanical instruments.

[4] See Chapter XII.

[5] See *supra*, pp. 11–13.

[6] From 1929 to 1931, Belgian imports of manufactured products showed a steady decrease as may be seen from the table below:—

	Quintals quantity.	*B. Francs (000's)*
1929 . .	12,505·2	9,601·4
1930 . .	11,327·1	9,350·4
1931 . .	8,735·0	7,057·2

of imports from Germany. In some Belgian collieries miners went on strike in the summer of 1932, deciding not to resume work until imports from Germany had been restricted. To my knowledge this is the only case in the history of import restrictions during 1931–6 where the initiative for control seems to have come from the side of labour. A quota for German imports of coal was introduced subsequently, reducing the quantity of German shipments of coal to Belgium to 50 per cent of the imports of 1931.

Apart from isolated instances of restrictions on manufactured products, such as the quota on earthenware (October, 1933) and on furniture (some time early in 1934), the textile industry was the other important section of Belgian industry which obtained the benefit of protection. As early as May, 1932, knitted goods were subjected to import limitation; clothing, certain yarns and woven materials in 1933; and by April, 1934, ties and collars had been added to the list. Most of these restrictions were not very severe. Generally, importers were still allowed to purchase 100 per cent of the quantity imported in 1931. By the middle of the year 1935 only twenty industrial articles were on the Belgian quota list.

After a law empowering the government to establish quotas by decrees had been promulgated in *Holland* on 23rd December, 1931, the second ordinance regarding import restrictions affected shoes of all descriptions, and a number of textile goods.[1] But in the view of Dutch industry, the energy of the government in introducing quotas left much to be desired. A powerful "Committee of Action for the Purpose of Speeding up the Application of the Import Restriction Law"[2] was founded, demanding protection for leather goods, enamel, further textiles, pottery, chinaware, glassware, iron manufactures, electrical apparatus, and a number of other special manufactures. Practically all industries obtained protection.

The French import restrictions on manufactured products began towards the end of 1931. Total imports of industrial articles had not increased from 1930 to 1931, but the proportion of their consumption satisfied by foreign producers increased.[3] At a later stage there will be occasion[4] to discuss the French

[1] See Ordinance No. 2 of 1932 (5th February, 1932) limiting apart from shoes, woollen and partly woollen manufactures, clothing and tricotage.

[2] The Dutch title of this organization was "Comite van Actie in zaken bespoediging van toepassing van de contingenteerings Wet"; see *Industrie und Handel*, 29th February, 1932.

[3] See F. A. Haight, op. cit., pp. 55–60.

[4] See Chapter IX.

restrictions on industrial articles. Suffice for the present to say that practically no important tariff item escaped the quota regime.

The purpose of the foregoing pages has been to show that the main reason for the introduction of quantitative import control has been the desire to maintain domestic economic activity. The question of the maintenance of currency stability, the subject of the next chapter, was, in the majority of countries with quantitative import control, of secondary importance. Far from being based on a preconceived plan or intended to bring order into an *outwardly* chaotic system of international trade, the establishment of quantitative control grew out of a large number of individual decisions prompted by opportunism and the interests of special sections of the community.

Chapter III

QUOTAS AND THE CURRENCY

In cases where the authorities felt called upon or were obliged to give the reasons for introducing particular import restrictions (for example in Switzerland and in Holland), protection has often been openly declared to have been the reason for the quota. When it was not necessary to make the new protection palatable to an electorate as a whole, such honesty was not considered dangerous. But whenever public opinion had to be won over to the cause of protection, one indefatigable argument was advanced in almost all countries in order to veil, to some extent, and for some time, the real motive behind the restrictions. This argument, which does not seem to have lost any of its popularity since the time of Colbert, is based on the theory that (*a*) in all cases a tendency for the balance of trade to become less favourable or more unfavourable is to be viewed with great anxiety and that (*b*) an artificial reduction of the total value of a country's imports will safeguard the stability of the currency menaced by this unfavourable tendency of the balance of trade. If the public can be made to believe that the value of the national currency is in danger and that the government's restricting measures will avert the menace of a *general* decrease in the purchasing power of money, consumers will be considerably more inclined to put up with the higher prices of some import commodities which they correctly anticipate as a result of the restrictions.[1]

It is possible to divide the countries which have introduced quantitative import restrictions and in which the menace to the value of the currency has been given as a reason for quotas into roughly two groups. The first group consists of a number of European creditor countries, including France, Switzerland, and Holland; the second consists of the debtor countries *vis à*

[1] The political necessity for using the currency argument diminishes, of course, (*a*) with the extent to which the agricultural section of the community is regarded as the backbone of the country, and (*b*) with the degree of general unemployment.

vis the first group, i.e. Greece, Estonia, Rumania and Bulgaria. In the case of the first group, the trade balance argument would appear to be above all in the nature of an official subterfuge. In the case of the second group, the relative increase in imports was only *one* of the immediate causes of the menace to the currency. In neither case does quantitative restriction appear to be the most suitable method of limiting imports in order to safeguard the value of the currency. This is true quite apart from the fact that *any* method of import restrictions tends to defeat its own purpose.[1] Let us begin with the countries the value of whose currencies was not in immediate danger in the summer of 1931, but which have nevertheless made use of the argument that further imports would necessitate depreciation.

The report of the *French* government to the President of the Republic, which accompanied the first important quota decree of 27th August, 1931, drew attention to the increasing unfavourableness of the balance of trade and commented on it thus :—

> " Une économie saine ne peut s'accomoder longtemps d'une situation semblable. Si un remède n'est pas apporté à bref delai à la situation, on peut redouter que la balance des comptes ne soit affectée défavourablement par les sommes de plus en plus considérables que nous consacrons à nos achats à l'étranger."

What was the extent of this movement of which the authorities apparently stood in fear ? The figures given in Table II of the total value of French imports and exports during the years 1927–1931 give a picture of the growing trade deficit.

TABLE II

000,000 Fr.

Year.	*Imports.*	*Exports.*	*Balance.*
1927 . .	52,996·0	57,254·3	+ 4·268·7
1928 . .	53,643·0	54,429·1	+ 786·1
1929 . .	58,220·6	52,750·7	– 5,469·9
1930 . .	52,510·8	43,501·5	– 9,009·3
1931 . .	42,205·8	30,878,5	– 11,327·3

This development was the counterpart of a large influx of gold upon which considerable internal expansion had been based. From 1928 to 1931, the gold reserve of the Banque de France rose from 31,838 million francs to 68,863 million francs, i.e. it more than doubled during the period under consideration. Such an increase in the gold reserve would have been bound, even under conditions of an increasing ratio of gold to circulating

[1] See Chapters XII and XIV.

medium (i.e. under conditions where circulating medium is not expanded to the extent necessary to maintain the same ratio between gold and internal means of payment) to bring about a tendency for imports to increase. The internal expansion was the fundamental cause of the increase in imports from 1927–1930. The break of prices outside France in 1930–2 thus only aggravated the situation and cannot be blamed for the entire extent of the growing deficit.

The diversion from production for exports to production for internal consumption, may be shown in a rough way by a comparison of the quantity of raw materials imported and finished products exported.[1]

	1928.	*1929.*	*1930.*	*1931.*
Imports of raw materials (000,000's of quintals)	420	506	521	469
Exports of finished products (000,000's of quintals)	52	53	48	40

From 1928 to 1929 imports of raw materials increased by 20·5 per cent and exports of finished products by 2 per cent. In the following year exports decreased (9 per cent) while the imports of raw materials were still rising (2 per cent). With the advent of the depression, both imports of raw materials and exports of finished products decreased, but while the former showed a decline of only 10 per cent, the latter fell by 17 per cent.

Import restrictions were introduced at a time when the gold reserve of the Bank of France showed a strong tendency to increase and when many other countries introduced import restrictions of one sort or another because the reserves of their own central banks had fallen to a point where they were justified in thinking that a further—even if temporary—decline would menace the value of the currency.

The argument that import restrictions were needed in order to safeguard the value of the currency can only be regarded as valid in the case of a complete mistrust on the part of the authorities in charge of foreign trade policy in the operation of the gold standard. For if all confidence in the working of this standard had not failed it would surely have been the more reasonable policy to allow some of the accumulated gold to flow out (as a result of increased imports) in order to enable the countries which had lost their reserves to maintain their foreign purchases at a level more closely approaching their former

[1] For this method of illustrating the internal expansion I am indebted to M. Lautman, op. cit., p. 28.

amount. For from the point of view of the safety of the currency, it is not the absolute extent of imports which matters, but the relation between the total value of imports and exports. It is quite possible that French exports would not have decreased in relation to imports to the same extent as they did, had France followed a more liberal policy towards the exports of those countries which actually experienced currency difficulties at that time.

There is, however, no reason to suppose that the authorities did not expect exports to decrease less and imports to fall if they allowed an outflow of gold. What they did fear and wanted to prevent was the deflationary influence of continued imports until the outflow of gold had brought about a situation closer to equilibrium than that which existed at the time of the introduction of import restrictions. In other words, they feared the process of adjustment through the gold standard rather than a depreciation of the currency. The fact that with the individual French import restrictions more heed was generally paid to the quantitative increase than to the rise in the total value of a particular commodity imported, also seems to show that mistrust in the operation of the gold standard need not be assumed when attempting to find the real reasons for quota restrictions.

While at the beginning of the French quota regime the increasing unfavourableness of the trade balance was only given as one of the general reasons for introducing import restrictions, the development of the balance of trade became the main point of the argument in favour of these regulations at a later period. In January of the year 1934, the French Minister of Commerce declared: "Il n'est que naturel que la France, *soucieuse de retablir l'équilibre de sa balance commerciale*, se serve des contingents pour assurer à ses produits des avantages de réciprocité en compensation des importations étrangères." [1]

By that time the French government had begun to resort to a new system of import restrictions into which the principle of "compensation" not unlike the Swiss system,[2] was incorporated. The choice of the commodities to be restricted under this new system shows that protection of a particular branch of domestic production was then no longer the exclusive reason for import limitation. The technique of this new system and some of its

[1] See *Jounnée Industrielle*, 19th January, 1934; italics mine.
[2] See pp. 241–2, Chapter XVI.

problems will be discussed more fully later in this volume.[1] Our present concern in the new system is with the extent to which the argument of the trade balance was applied in practice.

For example, a quota was placed on coffee at the beginning of 1934, obviously not in order to protect domestic production, but with a view of extracting certain export concessions. As soon as the principle of "compensation" is introduced, the possibility of buying in the cheapest market is considerably restricted. Negotiations about the composition of approximately equal valued bi-lateral exchanges are bound to have this effect. But if the import surplus is to be reduced at all costs, this method, though economically effective only in the short run, would seem to be the most efficient to bring it about. In 1934 the deficit in the balance of trade which had stood at around 10,000 million francs during the three preceding years was reduced to 5,247. Exports were maintained at a relatively high level, so that a decrease in imports was almost alone responsible for the reduction in the deficit. To some extent imports fall of their own accord but there seems little doubt that the new system of compensation was calculated to slow down the unfavourable trend of the French balance of trade, while the older import restrictions had tended to prevent any appreciable improvement from taking place.

In *Switzerland*, also, the general tendency of the balance of trade to become more unfavourable from 1929–1931 than in the preceding period, was advanced as a reason for the necessity of resorting to import restrictions.[2] The initial governmental statements of foreign commercial policy did not attach very great importance to this development. That measures had to be taken against the increasing tendency of the Swiss balance of trade to become unfavourable was, however, announced in May, 1932, in connection with the new "compensation" policy, the outlines of which have already been given.[3] It was then that the government isued a communiqué which read as follows: "The steady decrease of our exports and the more unfavourable position of our balance of trade and of payments arising from

[1] Since the "compensation" principle became a part of the general restriction scheme, only at a comparatively late stage and since it has in the case of France never played a central role as it has done, for example, in Switzerland, it has been found convenient to discuss these causes of quantitative restrictions in France in Chapter XIV.

[2] See W. J. Hotz, op. cit., pp. 16, 17, section on "Scope and Bases of our Present Commercial Policy".

[3] See *supra*, pp. 16–17.

this development as well the as difficulties with which our export industries are confronted . . . have forced the government to introduce measures which make compensation trade possible." [1] Although repeatedly drawing attention to the necessity of coming to the rescue of the export industries, the government declared that " the purpose of this decision (was) not to restrict the quantity of foreign goods imported nor to protect internal industry (but that) its sole purpose (was) to facilitate and foster exports and to improve the balance of trade and payments." The fact that the communiqué took care to include the words " and payments " seems to indicate that it was the value of the currency which was believed to be in danger.

The third important creditor country of Western Europe whose government included the unfavourable tendency of the balance of trade in its arguments in favour of import restrictions was *Holland*. Although attention was drawn to the increase in unemployment resulting particularly from increased industrial imports from England and Germany, the official announcement of the introduction of import quotas finished by saying that " it was not necessary to emphasize that the Bill [2] has no protectionist character ". This statement, though false, attempted to make the introduction of quotas appear to be dictated by currency reasons. For some time the impression that Holland had actually begun to safeguard the value of the guilder was strengthened by the introduction of value quotas for imports. Thus, for example, the regulations concerning imports of chinaware and pottery, of bicycle tyres, rugs, and, later, of cotton yarns and other cotton goods, stipulated that importers could only import these products up to a certain value, rather than a certain quantity. This was, in fact, the system which was used, as we shall see later, by the majority of countries which introduced exchange control. But since in reality there was no immediate danger that the value of the Dutch currency might not be maintained, industry was in many cases successful in persuading the government to establish quantity rather than value quotas.[3] Fixing the total outlay (value quota) would have checked the demand for foreign currencies but not the quantity of goods imported. On the other hand fixing the quantity, though preserving part of the home market for the domestic producer, did not

[1] *Baseler Nachrichten*, N. 124, 7th–8th May, 1932.

[2] 23rd December, 1931; reprinted partly in *Frankfurter Zeitung*, 24th December, 1931.

[3] See, for example, *Nieuwe Rotterdamsche Courant* of 20th October, 1933.

prevent an increase in the demand for foreign exchange in the event of a rise in the prices of the restricted products.

The tendency in France, Switzerland and Holland for balances of trade to become more unfavourable was not accompanied by a net outflow of gold. Capital exports from the debtor countries which had begun even before the outbreak of the financial crisis in 1931 counterbalanced the effect of the increasing trade deficit. The following table shows the development of gold reserves in the three countries in question.[1]

GOLD RESERVES IN A NUMBER OF EUROPEAN CREDITOR COUNTRIES.[2]

Central Bank of	*Currency Unit (000,000's)*	*Gold Reserve. End of 1930.*	*End of 1931.*
France	French fr.	53,578	68,863
Switzerland	Swiss fr.	713	2,347
Netherlands	Gulden	426	887

It is doubtful whether isolated policies based on a more liberal attitude towards imports on the part of the countries which had before and during the financial crisis of 1931 accumulated large stocks of gold, would have led to a more speedy and, in the long run, less painful adjustment of international trade. A renunciation of protection on the part of all countries still on an " effective "[3] gold standard would, however, most probably have had this effect.

The technical possibility of co-operation between central banks was available more than ever before through the existence of the Bank of International Settlements. But rather than follow a policy of adjustment (by allowing imports to increase thereby easing the position of countries in acute currency difficulties) the monetary authorities somewhat hesitatingly came to the rescue of the countries most severely affected by the financial crisis through the extension of central bank credits. Such credits did not, however, have the effect of improving the internal economic conditions in the debtor countries, but were,

[1] It is true that a large amount of the increase in the imports of gold was due to fear as to the safety of liquid assets in other countries, and that capital imports of this kind cannot be regarded as a stable addition to the importing country's stock of capital. Yet in spite of the fact that the danger of a subsequent sudden withdrawal did exist, the increase in the gold reserves as an additional factor in guaranteeing the *immediate* safety of the currency cannot be disregarded.

[2] Figures taken from League of Nations, *World Economic Survey*, 1931–2, pl. 78.

[3] The word " effective " is used here in contradistinction to the term " fictitious " which has been applied to countries which, although maintaining the old gold par value of their currencies, have introduced exchange control.

to a large extent, used to finance the flight of capital and speculation, movements of funds which might well have been discouraged considerably if increased commodity exports had been allowed to improve the general commercial outlook in the capital-losing countries.

The values of the French, Dutch, and Swiss currencies were not menaced in the autumn of 1931. The actual reason why import restrictions were introduced in these countries was the desire to maintain the existing character and extent of internal production. The monetary authorities of these countries, in order to achieve this object, preferred to allow an influx of gold and foreign deposits to an influx of commodities which would, in the absence of import limitations, have accompanied and followed the initial withdrawals of capital from the debtor countries.

The situation was, however, quite different in a number of European debtor countries which also resorted to this method of import restrictions. The majority of these countries, it is true, chose the method more suited to the nature of the situation, i.e. exchange control, but since some of them tried to achieve the same object—the maintenance of the value of the currency—through quantitative restrictions on imports, they must briefly be considered in this connection.

The country where the maintenance of the currency was for a time most consistently attempted by a direct quantitative reduction in imports rather than by simple limitation of the amounts of foreign exchange which importers were permitted to acquire, was *Greece*.

The chief difficulties which confronted the Eastern European debtor countries in 1930–1 are considered in a general way in Chapter VI.[1] At this stage the particular case of Greece is used to illustrate the plight of those countries where *quantitative* import restrictions were actually introduced with the view of safeguarding the value of the national currency.

After the stabilization of the Greek currency in 1929, foreign capital began to flow into the country, and continued to do so longer than in the case of other Eastern European borrowing countries. The inflow of foreign credits and of emigrants' remittances dried up at the end of 1931. The result was a considerable decrease of the reserve of the central bank. This decrease was not in itself large enough to make an immediate depreciation of the currency necessary, in the absence of import

[1] See *infra*, pp. 54–71.

restrictions. In fact, at the time when exchange control was introduced the reserve of the central bank had risen again above the level at which it had stood during the financial crisis. But the knowledge of insufficient crops [1] and the depreciation of sterling gave rise to such a degree of nervousness about the stability of the drachma that import restrictions were considered necessary in order to save the currency situation. Over the whole of 1931 the Greek balance of trade did not show an unfavourable tendency but there is reason to believe that the current supply of foreign exchange decreased as a result of exporters holding the proceeds of their foreign sales. Although it would seem that the anxiety about the stability of the Greek currency was exaggerated there can be little doubt that the official reason for establishing import restrictions was given in all sincerity.

It is nevertheless surprising that it was the Chamber of Commerce of Athens which took the initiative in the campaign for restrictions at the beginning of 1932. Although it is doubtful whether some of the members of this institution foresaw the abnormal profits which could later be made [2] as a result of the regulations in Greece, it is difficult to imagine that their only concern was the maintenance of the value of the drachma. And from the choice of the commodities which the Athens Chamber of Commerce proposed for limitation, it would appear that industrial interests had some influence (though less than in other countries) on the proposal of these restrictions. In spite of the probable expectation of losses to trading interests, the Chamber of Commerce passed the following resolution :—

> " La Chambre de Commerce et d'Industrie d'Athènes propose ces mesures (quantitative import restrictions) dans la ferme conviction qu'elles constituent dans les circonstances présentes la sauvegarde la plus sûre de la drachme, et peut-être la seule manière positive pour régler la situation du change, pour lesquelles le commerce et l'industrie s'offrent spontanément à subir des sacrifices très lourds."[3]

Apart from this resolution on the part of private enterprise, a special Government Commission also came to the conclusion that the only way the drachma could be saved was by restrictions on imports.[4] That protection of the currency remained the most

[1] See League of Nations, *Review of World Trade*, 1931, Geneva, p. 42.
[2] See Chapter XII.
[3] *Le Messager d'Athènes*, No. 3026 of 27th February, 1932.
[4] *Industrie und Handel* of 20th November, 1931.

important object of the restrictions, even after the currency had —in spite of former declarations to the contrary—been devalued,[1] is borne out by the fact that in later years Greece was always prepared to increase its imports from countries with which its Clearing Accounts showed a favourable balance.[2]

Two provisions[3] in connection with the import restriction law of 7th May, 1932,[4] also point in this direction. The first of these stipulates that importers of more than one commodity may increase their foreign purchases of one of these, if they renounce the right to import the full quantity specified for another. The second provided for unlimited entry of gifts sent to Greece by nationals living abroad. Both imply that the government was in general not interested in the protection of individual industries, but in the relation of the total value of imports to that of exports.[5]

The Athens Chamber of Commerce had worked out an entire plan of import restrictions, by which total imports would be reduced to such an extent that, other things remaining equal,[6] the relation between imports and exports would permit the value of the drachma to be maintained at par. For example, food products were to be restricted by between 20 per cent and 40 per cent, and certain raw materials from 10 per cent to 15 per cent, whilst the Chamber of Commerce and Industry would have liked to see, for example, finished textile goods reduced by 60 per cent of the same basic period (1929–1931). The Government, in introducing import restrictions, went farther in the same direction and, while allowing a large number of food products and raw materials in freely, restricted most severely commodities which may roughly be called luxury products. In order to appreciate what happened in the case of Greece, let us briefly consider the extent and the nature of the restrictions imposed. In the following table commodities are arranged according to the severity of import limitations.[7]

[1] April, 1932.

[2] See Ministerial Decree of 19th April, 1934. On the general reasons for, problems of technical Exchange Clearing see Chapters VI and XVI.

[3] See *Industrie und Handel*, 4th and 13th August, 1932.

[4] See translation in *Aussenhandelsdienst der Oesterreichischen Handelskammern, Legislativer Informationsdienst*.

[5] See, however, the list of import prohibitions on p. 36.

[6] Needless to say, this saving phrase did not appear in their report.

[7] Most of this information has been obtained from the Berlin publication *Industrie und Handel*, 15th May, 1932, and subsequent numbers.

90 per cent.	*80 per cent.*	*75–70 per cent.*	*60 per cent.*	*50 per cent.*	*40–30 per cent.*	*Free.*[1]
Caviar	Foreign Cheeses	Liqueurs	Bakery Goods	Coffee	Vegetables	Wheat
	Canned Vegetables	Glucose	Photo. Cameras	Woollen Goods	Eggs	Rice
	Sugar Goods	Toys	Gramophones	Building Timber	Raw metals	Wool
	Wines	Gloves	Clothing			Coal
	Silks	*Cement*[2]	Cotton Goods			
	Shoes[2]	Salmon	Radios			
	Perfumes	Canned Meat				
	Certain Metal Manufactures	Cocoa				

[1] Later list according to *Messager d'Athènes*, 21st January, 1935.
[2] These commodities are exceptions to the general character of goods in their respective columns.

The import system in Greece went through a number of changes. In later years trade on the basis of bilateral compensation, to which, in certain cases, quotas did not apply, so increased that this "compensation" finally became more important than that part of the total import trade which was subject to quotas. While, according to figures given by the *Messager d'Athènes*,[1] the proportion under quota (measured according to the value of imports in 1931) amounted to more than 50 per cent during the first few years of Greek quantitative import restrictions, it declined to less than an eighth in 1935.[2]

The new system, which has in its main principles remained to the present day, was introduced at the end of 1934, and came into force in April of 1935.[3] One of its characteristics was the extended use of trade by bilateral compensation—not as a matter of general policy, but in the form of provisions for actual transactions, specifying the individual commodities which could be imported only on this basis. Subjected to quotas [4] were :—

(1) *Food products.*—Only butter, fresh vegetables, nuts, and linseed oil.

(2) *Raw Materials.*—Metals, such as lead, tin, copper, and nickel.

(3) *Manufactures.*—Pipes, cables, and a large number of high-priced articles such as motor-cars, cash registers, photographic cameras and optical instruments.

Heavily hit in this respect were textile goods such as clothing, cotton cloth and yarns.

Apart from quota regulations and specified products which could only be imported on a compensation basis, some products required special licences, others were limited purely by exchange control, while the imports of a final category [5] were prohibited entirely. Only a very intimate knowledge of Greek industrial conditions, which the author does not profess to possess, could be a possible guide to the reasons for the authorities' choice between ordinary quotas and special licence. No differences of character exist between the products in the one and those in the other category. There can, however, be no doubt that the Government preferred the method of exchange control

[1] 21st January, 1935.

[2] See *Eildienst*, 18th March, 1936. Total trade in 1935, Dr. 10·7 thousand million, of which Dr. 1·2 thousand million subject to quotas.

[3] See translation *Aussenhandelsdienst der Oest. Handelsk. Legisl. Informationsd.*

[4] Category C.

[5] List H—it included fresh fruit, soya beans, sunflower seeds, palm kernels, cocoa, Oriental rugs, and cigarette lighters, for which the Government has a monopoly.

to quantitative quotas in the case of obvious "luxury" products.[1] It seems that in their case the authorities were particularly anxious to avoid a rise in the outlay of foreign exchange, which a quantitative quota cannot prevent, particularly since the prices of such commodities did not show the same falling tendency as did the heavier manufactures and agricultural products.

Throughout the whole period there was a tendency to widen the powers of the exchange control authorities. Thus, a so-called State Import Board was abolished in the second half of 1934, and the regulation of imports taken over by the National Bank.[2] When the system was made stricter in April, 1936, the reason advanced was a renewed scarcity of foreign exchange.[3] Throughout the whole history of the Greek import system its cause (safeguarding the currency), and to a considerable degree the method (limitations of quantitative import), remained the same.

Another country where quantitative import limitations were incorporated in a general system of exchange control was *Estonia*.[4] In November, 1931, the Minister of Economy and Finance announced the necessity of keeping the value of the Estonian crown stable, and stated that the import restriction law was one of the means to achieve this end.[5] The regulation of imports was in fact established as a preventive measure[6] before the general control of the balance of payments was introduced. Quantitative limitations were not used consistently in Estonia, as a system of special licences, to be granted by so-called import monopoly boards,[7] applied to a large number of products, and from time to time high tariffs were substituted for quantitative limitations. Superimposed on all these regulations were the wide powers of control which the National Bank enjoyed over the character and extent of purchases of foreign products.[8]

[1] This category (E) included caviar, lobster, liqueurs, wines, finer types of shoes, jewels, perfumes, embroideries, underwear, gramophone records.

[2] Reported in *Neue Freie Presse*, Vienna, 2nd August, 1934.

[3] See *Eildienst*, 25th April, 1936, and 1st July, 1936. It seems that in this particular case the National Bank has spent part of its holding on extraordinary military supplies.

[4] See also Chapter X, p. 131.

[5] See *Industrie und Handel*, 14th November, 1931.

[6] There had been a run on a bank known to be largely working with British funds (*Der Osteuropa Markt*, Königsberg, 15th October, 1931), and speculative import increases had begun early in the autumn of 1931 (*Industrie und Handel*, 26th October, 1931).

[7] See Chapter XVI, p. 243, footnote 2.

[8] See Chapter XVI.

Although at the time of the introduction of import limitations it was decided not to limit the importation of articles of daily consumption, but rather to regulate their extent in connection with foreign commercial policy,[1] such commodities were subjected to quantitative regulation within the first six months of the existence of the system. By the middle of April, 1932, all dairy products, eggs, coffee, tea, and certain fats were subjected to quotas.[2] " Luxury " products were restricted immediately.[3] In spite of the constant opposition of the trading interests,[4] quotas were placed on almost all manufactured goods imported by Estonia.

Of the smaller countries of Eastern Europe, Estonia could boast of the most extensive list of specified import restrictions. With the exception of isolated cases [5] all these restrictions were introduced for currency reasons rather than the protection of domestic economic activity. The government, foreseeing that any kind of import restriction regardless of its motives, must have incidental protectionary effects, took exceptional care that internal industry might not expand too much behind the shelter of the import limitations. For example, when the limitations on finished textile goods led to a rise in their prices, and consequently in the demand for textile-producing machinery, the Government refused to issue permits to import such machines.[6]

It is not always possible to discern what was the chief reason for the introduction of import regulations in particular countries. Frequently it was a combination of different causes of similar importance which led to the introduction of quotas. *Rumania* is a case in point. Prices of Rumanian exports were falling relatively faster than those of her import products, and a speedy adjustment of the balance of trade to the changed conditions of international demand was thus made more difficult. Moreover, on account of exchange control in other countries, anticipated foreign exchange receipts did not materialize. The initial reason for restrictions on capital and commodity movements must

[1] See *Ost-Express* (*Wirtschaftsausgabe*), No. 267, Berlin, 12th November. 1931.

[2] See *Industrie und Handel* of 7th April, 1932, and subsequent numbers

[3] Figs and raisins, liqueurs, wines, fruit, vegetables, meat, lace, and all kinds of small manufactures.

[4] See *Ost-Express*, No. 270, November, 1931, which reports that a delegation of Estonian merchants went to the government to plead for tariffs instead of quotas, and *Eildienst*, 13th February, 1934.

[5] Thus, for example, licences for coal were only to be given if and when indigenous fuel slate could not be used.

[6] See *Revalsche Zeitung*, 5th October, 1935.

therefore be sought in the tendency of the balance of trade to become less favourable.[1] The following table shows the development of the situation :—

Year.	*Quantity exported* (*mill. tons*).	*Average Value of ton exported* (*Lei*).	*Balance of Trade* (*mill. tons*).	*Foreign Debts and Services* (*mill. Lei*).	*Bank Reserve.* (*mill. Lei*).	*Reserve Ratio.*
1930	9,214	3,096	+5,985	5,694	9,998	45·0
1931	10,047	2,209	+6,442	6,060	10,086	36·2
1932	9,057	1,546	+4,712	5,431	10,166	36·1

In May, 1932, the cover of the bank was still above the minimum of 25 per cent.[2] However, the existence of large hoards in the form of currency notes after the circulation had been increased considerably during the latter half of 1931, the lack of solidarity among the commercial banks as to the need for discouraging the demand for foreign exchange,[3] and the general nervousness as a result of events in neighbouring countries, induced the Government to introduce measures against a possible menace to the value of the Rumanian currency, in the spring of 1932.

In November of the same year it was, however, declared that exchange control measures " appear no longer sufficient to make available the sums of foreign currencies necessary to meet foreign payments ".[4] Quotas were therefore established on certain articles in order " to assure an export surplus ".[5] In order to combine as much as possible exchange control and quota regulations (administered by the *Comisiunea superiora a contingentarilor*), an Advisory Committee of Exchange Control and Imports was created at the National Bank.

Thus it would appear that the chief reason for the introduction of quotas was the state of the balance of trade, i.e. that the quantitative limitations were established in order to safeguard the currency. It is, however, difficult to see why exchange control measures alone should not have achieved this object, without the additional complication of quantitative restrictions. The explanation is probably to be found in the fact that the Rumanian Government believed that quotas could be more

[1] See the semi-official publication *Le Régime du Commerce Extérieur en Roumanie*, Bucharest, 1935, pp. 4–6.

[2] Repatriation of some Rumanian capital and a foreign loan to the National Bank helped to keep the reserve at a relatively high level ; see *Oesterreichischer Volkswirt*, 16th January, 1932, p. 175.

[3] See *Oesterreichischer Volkswirt*, 28th May, 1932, p. 343.

[4] See *Le Régime*, etc., p. 8.

[5] Ibid., *Journal du Conseil des Ministres*, No. 276, du 22 novembre 1932, published in *Moniteur Officiel* of 24th November, 1932.

profitably employed as a weapon of commercial policy than exchange control.

While exchange control, if it is obviously employed as a means to achieve certain objects of foreign trade policy, is generally severely attacked by the countries affected, quotas—their commercial objects being taken for granted—seem, although their effects on trade may be much more damaging, much less liable to call forth retaliatory action on the part of the countries which find their exports restricted.

According to a Ministerial Decree of 9th June, 1933,[1] a further Foreign Trade Committee was established, whose task it was "d'établir les normes proposées à satisfaire les besoins réels du pays en articles étrangers, et *à encourager l'exportation des produits nationaux*".[2] According to notices in the Rumanian Press,[3] the National Bank divided foreign countries into three groups, according as the balance of trade was unfavourable, even, or favourable to Rumania, and attempted to reduce imports from the first category. The same principle was applied in the case of the determination of quantitative restrictions. Fees payable in connection with quota permits also varied according to the state of the balance of trade with the country supplying the commodities affected.[4] Thus, while the initial cause of import restrictions in Rumania was the desire to render the balance of trade more favourable, quantitative limitations have later been maintained as a weapon of commercial policy.

In the case of *Bulgaria*, where the National Bank has for a number of years been in charge of the regulation of imports, quantitative considerations have played some part in the determination of the extent to which different foreign products could be imported. Since, however, in the case of this country the chief control of imports has from the beginning been part of a general system of exchange control, the case of Bulgaria can best be dealt with in the section covering that method of regulating international economic relations.

[1] See *Moniteur Officiel*, 1st July, 1933.
[2] Italics mine.
[3] See, for example, *Kronstaedter Zeitung*, 19th January, 1933.
[4] *Kronstaedter Zeitung*, 29th March, 1934.

Chapter IV

FOREIGN COMMERCIAL POLICY

Apart from the protection of domestic economic activity and the protection of the value of the national currency, a further immediate cause of quantitative import restrictions has been the desire to use them as a means of achieving certain objects of external commercial policy. Although, of course, external commercial policy is generally based on domestic objects, retaliatory measures are at times taken on the spur of the moment without particular reference to general policy. The main difference between the reasons for quotas which have been discussed so far and the present one is that in the latter case they have been introduced as a result of foreign restrictions on exports and not because of an independent increase in imports.

Tariff increases have been employed for a long time in international commercial negotiations in order to strengthen a country's bargaining power or as a method of reprisal in order to induce another country to reduce its tariffs. It was therefore quite natural that quantitative limitations, once they had been invented, should also be used in this way. In the preceding pages we have already considered the most important instance of this use of quotas, i.e. the case of Switzerland, since in that country the principle of quotas as a weapon of commercial policy was not only introduced at an early stage of the system of quantitative import restriction, but also played an important role in the general attempt to maintain domestic economic activity at its existing level. In the later stages of their quota regimes, France, Belgium, and Holland have also employed quotas expressly for the purpose of extracting export concessions from other countries. But while in these instances the system of quantitative import regulations was not *introduced* with this purpose in view, in a number of other European countries the principle of commercial policy or more particularly of retaliation has been the initial cause of the introduction of quotas. Cases where commercial policy has been a further development of the

existing import control system, rather than an independent cause of it, will be considered towards the end of this inquiry where it is proposed to deal with the tendencies, during the last few years, of the nature and objects of quotas and exchange control.

The first important country to use quantitative import regulations as a method of reprisal was *Italy*. Although the agricultural corporations during the years 1931–2 were in favour of restricting the importation of foreign agricultural products, the view of the industrial corporations that the most favoured nation clause should be strictly adhered to prevailed. In the Grand Council, both sections of the community compromised, and it was decided that quota restrictions could be used as a method of reprisal against countries subjecting Italian export products to quota limitation.[1] From the juridical point of view, all that was necessary was an extension to quotas of an existing decree of 14th November, 1926, which provided for counter measures *vis-à-vis* countries discriminating against Italian products.

The first import articles subjected to quota limitations were products of small importance from the point of view of Italy's domestic production, but liable to affect unfavourably the export industries of the country to which they applied. They were wines, liqueurs, perfumes, and soaps from France. Restrictions of a similar nature were applied to Czechoslovakian products in March, 1932.[2] Further retaliatory measures against French export products were introduced in July, 1932, when cars, clothing, and certain luxury products were added to the list as a reprisal against French quotas on Italian fruit and vegetables in the same month.[3] Again, when France, at the end of June, 1933, reduced the Italian quotas on meat, sausages and cheese for the third quarter of that year, Italy answered a week later with restrictions on French cotton yarn, lace, tool machinery, hides and many other products.[4]

When Italy believed herself forced to introduce exchange control in May, 1934, as a result of withdrawals of capital and a tendency of the balance of trade to become increasingly unfavourable, quotas were made an integral part of the currency

[1] See Lautman, op. cit., p. 85. (Conversations with members of the State Foreign Trade Institute in Rome have confirmed the view that the original Italian quotas were introduced as measures of reprisal.) See also Weiller, *Revue Economique Internationale*, June, 1932, p. 505.

[2] See Lautman, op. cit., p. 91.

[3] See *Industrie und Handel*, 27th July, 1932.

[4] See *Eildienst*, 25th April, 1934.

defence system. The principle of " compensation " was, however, retained and particular imports were regulated " in accordance with the flow of total trade with the countries supplying the goods concerned ".[1]

The principle justifying the introduction of quotas was their use as weapons of commercial policy, but after 1934 this can no longer be considered their chief use. In 1934, only oil seeds, copper, wool, and coffee had been subjected to quotas. But in February, 1935, almost all imports of consumption goods were limited quantitatively, indeed an entire system of import regulation was established in Italy.[2] In connection with the introduction of the new system which divided all imports into three categories, i.e. :—

(*a*) those which could be imported freely,
(*b*) those subject to special licence, and
(*c*) products restricted quantitatively ;

the principle of employing the quota for bargaining purposes was, however, reaffirmed. Although the quotas were generally so small (varying between 5 per cent and 30 per cent of a preceding period) that the Government was obliged to increase them (without obtaining in all cases some export advantage), Italy was able to negotiate a large number of favourable treaties by allowing more imports from specified countries than the original quota restriction had prescribed.[3] Most countries in fact came to agreement with Italy almost immediately, so that the very severe restrictions introduced by this country remained largely without effect until reprisals for the application of sanctions during the Abyssinian war changed the entire picture.

A further group of countries where the principle of retaliation

[1] See *Decreto-legge* of 14th April, 1934, No. 564. Imports were to be regulated " in relazione all' andamento degli scambi commerciali con i paesi di origine delle merci stessi " See also the excellent article by Pietro Mario Beghi, " Dei Contingentamenti," in *Riforma Sociale*, March–April, 1935, p. 165.

[2] See *Decreto-legge* of 16th February, 1935.

[3] By July, 1935, Italy had come to arrangements with the following countries: *Albania, Austria, Bulgaria, Denmark, Yugoslavia, Holland, Rumania* to be allowed to ship for specified times all exports (formerly entering into their trade) to the extent of 100 per cent of the last quarter of 1934. This, of course, on account of seasonal variations did not mean a maintenance of existing trade. Imports from the following countries were confined to the limits shown: *Belgium*, 55 per cent of last quarter of 1934 (65 per cent for certain textiles, glass, etc); *Germany*, 100 per cent (80 per cent for watches and other small manufactures) ; *Great Britain*, 80 per cent; *Greece*, 100 per cent (special quotas for handwoven rugs, etc.) ; *Iceland*, 50 per cent ; *Norway*, 55 per cent ; *Sweden*, 80 per cent ; *France*, 85 per cent.

was a predominating *initial* cause for introducing certain import restrictions consisted of *Poland, Finland,* and *Lithuania.* In the case of these countries the quantitative method has not been used throughout. Nor have the restrictions imposed been part of a general system of exchange control. Since, however, their introduction arose from the desire on the part of the respective governments to have at their disposal a more efficient means of retaliation against the restrictions of other countries, they may conveniently be considered in this connection.

While until the beginning of the year 1933 only a small number of products had been subjected to import restrictions in *Poland,* about 50 per cent of this country's imports were made subject to licence on 11th March of that year with the express purpose of using the restrictions as a weapon of foreign commercial policy.[1] The provisions of this law were extended and made more severe in October, 1934, when licences were made compulsory in the case of imports from countries which had introduced exchange control.[2] In connection with the allocation of such licences retaliatory measures were, for example, taken against Italy in November, 1934, after that country had established a system of exchange restrictions. During 1934 and 1935 more and more goods were added to the licence lists, not only as reprisals against other countries, but also in order to protect domestic industry.

Finally, when the deflationary policy which the Government had begun in 1934–5 did not show the expected results, Poland introduced an entire system of exchange control in March, 1936. The predominating cause of import restrictions was no longer their possible use as a weapon of commercial policy but a desire to prevent the flight of capital[3] and an attempt to render the balance of trade more favourable.

A similar kind of retaliatory import restriction was used from time to time by *Finland.* Both industry and agriculture were in favour of a system of quantitative import restrictions and the introduction of such a regime was expected in the autumn of 1932.[4] The trading interests of the country seem, however,

[1] *Legislativer Informationsdienst der oesterreichischen Handelskammern.*

[2] See *Industrie und Handel,* 14th November, 1934. Similar discriminating restrictions had applied to German products at the end of 1933: see *Industrie und Handel,* 14th November, 1933.

[3] One of the methods of exporting capital is the application of foreign exchange allegedly for commodity imports but actually in excess of the amount required for this purpose.

[4] See *Hufvudstadsblatt,* Helsingfors, 10th September, 1932.

to have been strong enough to dissuade the government from taking this step and tariffs were increased instead.[1] Only for the purpose of reprisals against countries whose quotas or exchange restrictions applied to Finnish products could quantitative or other import restrictions be used.[2] Although Finland's subsequent measures of retaliation by such methods do not seem to have met with the expected success,[3] the provisions of the reprisal law were prolonged at the end of 1933 and further extended in January, 1936.

Lithuania, after repeatedly raising her tariffs on a large number of articles in the course of 1931 and 1932, resolved to make the imports from countries with whom her trade balance was continuously unfavourable subject to licence in an attempt to extract export concessions from the countries concerned.[4] According to an official statement of the Ministry of Finance, imports were not to be restricted but only to be directed.[5] The choice of products among which there were sugar, salt, artificial fertilizer, and coal,[6] also suggests that the object of the restrictions was that of external commercial policy rather than of protection of internal industries.

The value of any kind of import restriction as a method of commercial policy is doubtful. With few exceptions the actual results of such methods have tended to increase the severity and extent of import restrictions rather than to lessen them.[7] Retaliation has led to counter-retaliation and the practice has frequently been to introduce the measure of reprisal and maintain it in existence even if it failed to bring other countries to terms.[8]

[1] See *Industrie und Handel* of 17th September and 25th October, 1932.

[2] See *Industrie und Handel*, 5th November, 1932.

[3] See *Industrie und Handel*, 21st December, 1933. Finland used import restrictions against Germany in 1934, but had to withdraw them after a very short period of time.

[4] Law of 22nd December, 1932. It was directed against Italy, Belgium, Czechoslovakia, Holland, Finland, Esthonia and Latvia.

[5] See *Wirtschaftliche Informationen des Finanzdepartments Litauens*, Kaunas, 10th January, 1933. According to *Industrie und Handel*, 2nd January, 1933, coal was to be imported increasingly from Germany and England instead of from Poland.

[6] See *Industrie und Handel*, 23rd December, 1932.

[7] See Chapter XVI.

[8] A few examples of such a development as a result of the retaliatory principle in foreign commercial policy may suffice to illustrate this point. When *France* put a quota on dairy products, *Switzerland* subjected French cheese to a quantitative limitation. The first import restrictions in *Denmark* affecting brandy, wines, and spirits (but expressly excluding whisky) were designed to hit *France*, some of whose quotas had particularly affected Danish products. As a result of introduction of the new "compensation" policy in *France*, *Greece* restricted exchange allotments on

But while it is possible that a country which constitutes an important buyer of a particular product may be able to exert a healthy pressure in the direction of a reduction of restrictions, it seems beyond doubt that a small country will hurt only itself in following the practice of retaliation. Post-War economic nationalism, the unfortunate outcome of the sane principle of the self-determination of peoples, seems to have prevented the realisation of the futility of such a policy on the part of small countries. For it was among the newly established small national units that the principle of retaliatory commercial policy found most adherents. The only exception to this rule appears to have been Lithuania, where the unsuitability of such a course for a small buyer in the international markets was realised at a comparatively early date.[1]

French products to a minimum amount. See also especially the retaliations and counter-retaliations between *France* and *Italy* (text *supra*, pp. 43, 44).

[1] See *Industrie und Handel*, 18th January, 1933.

Chapter V

THE CHOICE OF QUANTITATIVE CONTROL

The aim of the preceding chapters has been first, to show what were the chief reasons for the introduction of quantitative import restrictions, secondly to give a historical description of the particular events which induced individual countries to limit their purchases from abroad, and thirdly to indicate the extent to which quantitative restrictions have actually been applied. The question which remains is why, if imports were to be limited, the countries involved preferred the establishment of quotas to the conventional method of an increase in tariffs.

The chief reasons for the choice of quantitative limitations instead of tariff increases were :—

(1) The fact that existing treaties in many cases did not permit the contracting parties to increase tariffs without the renunciation of such treaties.

(2) The belief that other methods would be inadequate under conditions of rapidly falling import prices, and

(3) the political advantage of proposing a method of import restrictions which allegedly did not raise prices in the way that tariffs would do.

The first two reasons were legitimate. That the third was either born of insincerity or based on ignorance will become clear presently.

(1) The fact that many tariff rates were consolidated, i.e. fixed by virtue of existing treaties, was one of the main reasons why the Government of *France* resorted to quantitative limitations rather than an increase of tariff rates. The consolidation, however, did not apply to the majority of food products and, without renunciation of treaties, it was thus possible to increase the tariffs on these commodities.[1] Nevertheless on about 72 per cent

[1] F. A. Haight, *French Import Quotas*, London, 1935, gives on p. 6 the following list of tariff increases on food products during the two or three years up to 1933 :—

Commodity.	*Unit.*	*Former duty.* Francs.	*Revised duty.* Francs.
Wheat	per quintal	35	80
Butter	,, ,,	100	850
Cheese	,, ,,	60	100
Potatoes	,, ,,	15	42
Food Pastes	,, ,,	80	200
Horses (for slaughter)	per head	250	400
Fresh Pork	per quintal	125	250
Frozen Pork	,, ,,	65	130
Lamb	,, ,,	150	350
Ham	,, ,,	175	400

of the tariff schedule tariffs were fixed. Other methods of import limitation had therefore to be found. At the time of the introduction of the French quotas considerable discussion arose on the juridical point as to whether the government was permitted to decree quotas on the basis of existing legislation. It is not necessary to dwell on this question.[1] Suffice to say that none of the juridical objections were strong enough to cause the repeal of a single quota decree after it had been promulgated.

Once general protection of industrial activity had been decided upon in *Switzerland*,[2] the question as to whether tariffs or quotas were to fulfil this object was also finally solved in favour of the latter. Similarly as in the case of France, the government had from time to time agreed to the consolidation of tariff rates. When increased protection became a necessity, the authorities were not at liberty to raise the tariffs on certain goods whose increased importation was harming Swiss industry.

Thus, for example, the official reason given for the imposition of quotas on shoes and wines was the fact that the rates in the case of these commodites were fixed.[3] In a press conference at the end of January, 1932,[4] Switzerland's Minister of Commerce, Herr Stucki, drew attention to the fact that, although in the case of Germany (whence came most of the increased imports), tariffs were not fixed, the agreements with other countries prevented the raising of existing rates. The Minister was at that time of the opinion that the imposition of ordinary quotas limiting the total imports of a particular commodity would also have constituted an action incompatible with the provisions of such treaties and that for this reason the government had decided on the method of tariff quotas.[5] This type of restriction allows a definite quantity of imports under the old tariff while making any imports in excess of the stipulated quantity dutiable at higher—often prohibitive—rates.[6]

The original official objection to the ordinary import quota seems, however, to have been withdrawn very soon, and in

[1] See Haight, op. cit., pp. 7 and 8.

[2] See *supra*, Chapter II.

[3] See *Botschaft* of the Cabinet (official document No. 2777), 14th December, 1931; Report IV (document 2896), 22nd November, 1932; and Report VIII (document 3081).

[4] See *St. Galler Tageblatt*, No. 52, 1st February, 1932.

[5] It is difficult to see why this method should interfere less with treaties than the system of ordinary import quotas. Cf. also Haberler, *Liberale und planwirtschaftliche Handeslpolitik*, Geneva, 1933, p. 94.

[6] See Chapter VII for more elaborate description and scope of this method.

the autumn of 1932 a large number of ordinary import quotas existed. Finally the tariff quota was used only in the case of perishable goods, in order to decrease the possible losses to traders who had ordered such products without previous assurance of obtaining an import permission.[1]

(2) Even if a government decides to abrogate existing treaties in order to regain the country's liberty of action in tariff matters, imports would tend to increase during the period between the renunciation of the old and the signing of the new treaty. Many have supported quota measures on that account in *France*. And, indeed, the quota seemed a convenient method of dealing with imports increasing abnormally in anticipation of higher tariffs. Apart from private views to this effect[2] the French government of the day seems to have had in view the imposition of quotas in such cases. For its members never tired of emphasizing that the restrictions constituting merely emergency measures would be temporary.[3] But no such treaty denunciations, except in the case of Italy,[4] did actually take place until a much later date and for a different reason.[5] Although the arguments did not thus find application in practice, their theoretical validity cannot be doubted.

The object of more efficient protection—a quota may be decreased or increased at a moment's notice and the quantitative

[1] See Report VII, p. 366.

[2] See, for example, M. Duchemin, then President of the *Confédération générale de la Production Française* in *Revue Politique et Parlementaire*, 10th January, 1933, pp. 15, 16, where he says: "Le contingentement..., devait non seulement permettre de parer, au plus pressé en arrêtant l'invasion des marchandises étrangères envahissant notre territoir d'une façon anormale mais encore *donner à notre pays le moyen de reprendre sa liberté contractuelle. La France pouvait, en effet, dénoncer 'pro forma' ses conventions commerciales, puisque le régime du contingentement devait lui éviter le risque dangereux d'une invasion de marchandises étrangères pendant la période de préavis de dénonciation*" (italics mine). See also footnote 3 below.

[3] Strange as it may seem in view of the actual duration of the quota measures (seven years) the idea that the system would only be in force temporarily to meet an abnormal situation recurs quite frequently in the literature of the time. See, for example, the Report of the *Conseil d'administration du Comité d'action économique et douanière*, 18th June, 1934 (non-édité), p. 6: —"Il s'agissait alors de pourvoir à des nécessités immédiates devant lesquelles le commerce s'était incliné, en attendant que des mesures mieux appropriées à chaque cas d'espèce fussent substitutées à cet expédient, presenté comme expédient et temporaire par ses auteurs et ses bénéficiaires."

[4] A *modus vivendi* was agreed upon in March, 1932, by which the most favoured national treaty was renounced, consolidations of tariffs abolished, and the right for both parties to introduce quotas on each other's export products established.

[5] See Chapter XVI.

change in imports accurately foreseen—was clearly expressed in the Report to the President of the Republic accompanying the first quota decree of 27th August, 1931, which limited import of wood and wine. The document stressed the grave consequences which would arise to the communal and private owners of forest lands if the increased imports of wood were allowed to continue.[1] Partial or total unemployment of 10,000 workers and a severe reduction of the livelihood of small owners and the revenues of the local government were envisaged. Tariff protection was believed to be insufficient and a quota accordingly introduced.

The successful demands for a more efficient protection on the part of agriculture were followed by agitation on the part of industry. The need for quantitative restrictions was emphasized. Thus, the Chamber of Commerce of Roubaix demanded that :—

> " pour reconquérir le marché national intérieur qui échappe de plus en plus aux producteurs français, il soit procédé, dans chaque industrie a une enquête sur les possibilités de production et d'importance de la consommation du marché intérieur ; *que les importations étrangères soient limitées dans un système de contingentement, aux seules quantités et qualités que ne peut livrer la production française* ".[2]

M. De Lavergne of the Confédération Générale de la Production Française stated in his report for the year 1932 that :—

> " notre Confédération n'ignore pas les inconvenients du système du contingentement, mais elle le considère comme la seule mesure susceptible de parer à une situation angoissante."[3]

The choice in France between quotas and increased tariffs was largely settled in favour of the former by the simple consideration that no decrease in price however large could place increased quantities of a foreign product on the French market if the imports were restricted quantitatively.

The original quota law in *Switzerland* stipulated that the government was to report at regular intervals on the reasons for, and the results of, particular quota measures ; and here it is comparatively easy to find the reasons, at least the official ones,

[1] Quoted *in extenso* by Angelini, op. cit., p. 38. The consequences of increased wood imports " sont graves pour les propriétaires forestiers parmi lesquels figurent à côté dé l'État de nombreuses communes, notamment en Aslace, et dans les régions de montagnes, aussi que plus d'un million de petits propriétaires vont être conduits à vendre leur bois à un prix infime ou de laisser sur pied ".

[2] *Journée Industrielle*, 24th December, 1931. Cited by Tomitch, op. cit., p. 31 ; italics mine.

[3] A Piettre, op. cit., p. 75.

for limiting the importation of particular commodities. Published reports to Parliament disclose many cases where existing tariff protection was believed to be inadequate, and rather than raise tariff rates, quotas were introduced. For the same reason so-called preferential tariff quotas have from time to time been changed into ordinary import quotas which do not make increased imports possible on the payment of a super-tariff.[1] The justified belief that the exact quantitative effects of quotas may be judged in advance and that the amount allowed over the frontier may be changed quickly if deemed advisable was also expressed in Switzerland in connection with the official arguments in favour of quotas as against increases in tariff rates.[2]

The second main argument was that tariffs would not be able to restrict imports as effectively as quotas. To the extent that it is always possible to introduce a tariff which will have exactly the same effect as a given quota, this argument is invalid.[3] It gains force only if it is considered impossible to introduce the tariff quickly enough during times of violent price fluctuations.[4] And it is true that such sudden drops in price were particularly liable to occur during 1931–2 when large stocks of agricultural and industrial products were thrown on the market in the widespread struggle for liquidity.

(3) The third reason why quotas were introduced rather than tariffs was the belief that while a tariff would raise internal prices, the quota would have no such effect. The theoretical part of the inquiry shows that both methods of import restrictions result in a higher price for the commodity affected. In the case of the quota this effect is indeed more direct than in the case of a tariff. The former raises the price either absolutely or relatively by reducing the quantity which may be acquired,

[1] This was done during the first quarter of 1934, in the case of poultry, paper and clothing.

[2] The advantages of quotas over tariffs were stated in the following way by Dr. J. Hotz, Vice-Director of the Trade Department of the Swiss Economic Ministry: "Der grosse Vorteil liegt vor allem darin, dass es (i.e. the quota system) weitgehend den besonderen Verhaltnissen angepasst werden kann. Es erfordert nicht schablonenmässige Anwendung gegenüber allen Warengruppen und Provenienzen sondern ermöglicht die absolut erforderliche Bewegungsfreiheit und Anpassungsfähigkeit." See his *Betrachtungen zur Schweizerischen Handelspolitik, Vortrag gehalten an der Generalversammlung des schweizerischen Grossistenverbandes in Basel*, 2nd April, 1935.

[3] See Chapter XI.

[4] This is also conceded by one of the most violent opponents of quota restrictions in France, M. Weiller in the *Revue Economique Internationale*, June, 1932, p. 513.

while a tariff means an equal increase in the costs of all importers and can therefore not be competed away. These simple considerations did not, however, prevent governments from using this argument with apparent sincerity.

In the *French* Journal Officiel of 28th August, 1931 (p. 9472), a report, signed by the Président du Conseil and the Ministers of Agriculture, Finance, and the Budget, is reprinted. It reads in part :—

> " Étant donné que la crise actuelle quelle que soit son acuité n'aura qu'une durée limitée, il serait dangereux d'essayer dans tous les cas d'en pallier les effets par une surélévation des droits de douane. Des mesures de cette nature . . . auraient pour conséquence d'accroître les charges générales de la production, le prix de la vie et le coût de la main d'œuvre. Elles constitueraient d'ailleurs un nouvel appel à la hausse des prix et n'apporteraient qu'une remède momentanée à la crise."

The implication is that quotas will *not* increase the cost of living, will not necessitate an increase in wages and will be instrumental as a more than temporary palliation of the difficulties in which French industry and agriculture found themselves.

The same argument for quotas as against tariffs was advanced in *Switzerland*. A high official of the Foreign Trade Department of the Swiss Ministry of Economics expressed the view that while, in some cases, even very high tariffs would not have had the desired effect, in others even a less pronounced increase would have made the rates prohibitive and would, above all, have raised prices appreciably. In the words of the same official, " it was for these reasons that we have again—as at the beginning of 1921—resorted to the system of quantitative limitations by means of import quotas." [1]

This closes the inquiry into the causes of quantitative import regulations. The following chapter shows what induced the monetary authorities of another group of countries to limit imports by restricting the amounts of foreign means of payment which importers were permitted to acquire for the purchase of foreign goods.

[1] Dr. J. Hotz, op. cit., p. 17.

CHAPTER VI

EXCHANGE CONTROL AND EXCHANGE CLEARING

Chapter III surveyed a number of countries which began in 1931 to limit their imports, not in order to protect particular industries but to improve their balances of payments by rendering the balance of trade more favourable. In the case of Greece,[1] Estonia,[2] and Rumania [3] quantitative restrictions, either alone or in conjunction with currency measures, were employed to this end. In these countries the original aim of the authorities was to maintain the currency at par. In Austria, Czechoslovakia, Hungary, Bulgaria, Latvia, Lithuania[4] and Poland,[5] the same object was sought by means of currency measures.[6]

In a further group of countries, exchange control (including the limitation of imports) was introduced simultaneously with devaluation or was maintained after devaluation. Originally this group consisted of Denmark and Finland. But later on it was joined by a number of the countries which had initially intended to maintain the stabilized gold value of their currency. Thus, Greece maintained its combined quota and exchange control system in 1932 after allowing her currency to depreciate by about 50 per cent, Austria followed in the same year and Czechoslovakia and Estonia at various later dates.

All these countries introduced complete or nearly complete systems of exchange control. For this reason they limited imports by currency measures rather than by quantitative restrictions. Although some of them believed themselves forced to buttress one method of import regulation by simultaneous operation of the other,[7] the reason for choosing currency measures lay most probably in the existence of the other exchange restric-

[1] See pp. 33–8.
[2] See pp. 38–9.
[3] See pp. 39–41.
[4] Lithuania established restrictions in October, 1935.
[5] Poland introduced exchange control in April, 1936.
[6] For detailed description of the actual technique of those measures, see *infra*, Chapter X, pp. 123–145.
[7] For example, Rumania, Greece, and Estonia.

tions, introduced to prevent irregular capital movements. Moreover, since certain forms of the flight of capital may be disguised as commodity imports, it was generally most practical to include the regulation of imports in the general system of exchange measures.

The majority of the countries which imposed exchange control restricted imports. In 1931, there were indeed only two countries, Germany and Yugoslavia, which did not limit the purchase of foreign commodities for the purpose of improving the balance of payments.[1] For this reason it will be possible to concentrate on the reasons for the establishment of *import* control within the general systems of exchange restrictions.

To a considerable extent the restrictions on imports were introduced as precautionary measures rather than as measures necessary to prevent an immediate collapse of the currency. When in 1931 the gold reserves of the central banks of a large number of European countries had been reduced—largely as a result of the withdrawals of capital—a comparatively slight unfavourable tendency of the balance of trade was enough to arouse anxiety concerning the stability of the national currency. The general nervousness, combined with the necessity of carrying through internal policies not likely to promote an improvement of the balance of trade, induced a large number of countries to subject their import trade to central bank control. Let us inquire briefly into the causes of the unfavourable development of commodity trade balances with a view to finding out:—

(1) What circumstances made adjustment necessary.

(2) To what extent adjustment had been achieved by 1930–1, and

(3) To what extent the failure of adjustment was due to general conditions over which the countries concerned had no control, or to internal financial policies.

(1) The two principal changes of international importance which began roughly two years before the general introduction of exchange restrictions were (*a*) the decrease in capital imports into Central and Eastern Europe, and (*b*) the greater decline (relatively to imports) in the prices of export products supplied by a large number of countries in the same area.

For a number of years before the financial crisis the influx of

[1] Czechoslovakia might be counted among these; here, however, the period during which exchange restrictions served only the purpose of preventing irregular capital movements (flight of capital and speculation), was extremely short. Import control was introduced in January, 1932.

foreign credits had enabled many of the countries which, at a later date, introduced restrictions on imports, to maintain a deficit on current account of the balance of payments. The following table shows imports of long-term capital and the development of current balance of payments of a number of European debtor countries :—

TABLE IV. CURRENT BALANCE OF PAYMENTS AND LONG-TERM CAPITAL IMPORTS OF CERTAIN EUROPEAN COUNTRIES, 1927–1931.

(In terms of gold U.S.A. Dollars (000,000's) according to League of Nations, *Balance of Payments* 1933, pp. 11–14.[1])

Year.	*Germany.*		*Hungary.*		*Bulgaria.*		*Denmark.*		*Latvia.*		*Yugoslavia.*	
	a	*b*	*a*	*b*	*a*	*b*	*a*	*b*	*a*	*b*	*a*	*b*
1927	−1,013	426	− 89	49	− 3	8	− 11	− 39	4	1	− 23	− 25
1928	− 747	426	− 91	55	− 7	22	− 1	42	2	− 1	− 27	19
1929	− 591	457	− 37	38	− 21	6	9	− 7	− 5	7	13	15
1930	− 126	267	− 23	35	− 1	6	− 5	− 3	1	− 1	—	—
1931	− 266	3	− 38	3	− 5	4	− 19	− 6	2	—	—	—

a = Current balance of payments, excluding gold movements.
b = Imports of long-term capital.

The decrease in capital imports into Europe began just before the depression. It was caused primarily by the increasing profitability of investment (mostly through capital appreciation) in the American security market. But the really effective decline in capital imports came after the crash of the stock market and the all around decline in commodity values. It was then that the struggle for liquidity in the most prominent lending countries and the gradual failure of confidence in the borrowing countries' capacity to pay, brought long-term capital imports into Europe almost to a standstill.

The table shows that changes in the imports of long-term capital were generally associated with parallel changes in the deficit of the current balance of payments. Before briefly analysing this phenomenon, it is necessary to say something about the function of short-term capital imports during the same period (1927–1930). In this connection, it is not quite correct to separate the influx of long-term capital from that of all other capital imports. For the funds lent to the European debtor countries on short-term (in the form of bank deposits and other advances) were, in many cases, invested directly in production or went to pay for budget deficits. For this reason, short-term capital imports must, in many cases, not only have made an import surplus possible, but must be considered to

[1] No official figures are available for Austria but the tendency is known to have been similar to that at work in the countries given in the table.

have been the cause of it. For a large proportion of the short-term capital influx there is thus no difference from the point of view of the development of the current balance of payments, between long and short-term imports of capital. It is not possible to state even approximately to what extent short-term movements alone have influenced the development of the current balance of payments in these countries. Moreover, in a number of countries, the total extent of short-term capital imports is not known, while in the case of others the figures given in the official statistics represent merely the balance of the other items of the balance of payments. For these reasons, there seems considerable justification in limiting the discussion of the general trend of adjustment to the connection between the development of the current balance of payments and long-term movements of capital, and in leaving out of account the influx of short-term capital to the extent that such movements have *caused* rather than facilitated the maintenance of current deficits. From 1929–1931 the volume of short-term capital imports did not decrease at the same rate as that of long term capital imports, and in some cases it increased. The fact remains, however, that over this period there was a decrease in the total flow of foreign funds to the countries in question.

The second development of international importance which affected unfavourably a large number of the European countries which introduced exchange control was the relatively greater decline of export than of import prices. The following table shows the changes in the terms of trade of a number of European countries.

EXPORT PRICES AS PERCENTAGE OF IMPORT PRICES; INDEX NUMBERS, 1928—100.[1]

	1928.	*1929.*	*1930.*	*1931.*
Austria	100	127·8	123·0	143·0
Germany	100	99·1	108·1	123·2
Czechoslovakia	100	100·9	111·0	114·9
Denmark	100	106·5	104·1	89·7
Latvia	100	91·4	89·7	78·7
Estonia	100	100·4	94·0	85·8
Hungary	100	92·0	90·3	84·9
Yugoslavia	100	104·7	98·2	88·1
Bulgaria	100	145·3	91·8	57·0

[1] For all countries except Austria and Bulgaria, the figures have been calculated from official indices published by the League of Nations. For Austria and Bulgaria the figures have been arrived at by simple value-volume divisions.

With the exception of Austria, Germany and Czechoslovakia, the terms of trade of all countries mentioned in the above table deteriorated.

A sudden decline in the world prices of a country's export products will in the first instance lead to a decrease in the total value of its exports. The relative decrease in the value of exports after a given fall in the prices of *existing* export products will tend to be larger for an agricultural country than for an industrial country. The possibilities of substituting new export goods for those whose prices have declined will be easier for a country with a developed system of industries where the general mobility of factors of production is greater. For similar reasons the production of goods formerly imported[1] will also proceed with greater ease in an industrial country.

Therefore, from the point of view of part of the adjustment mechanism, industrial countries are initially in a more favourable position. There are (apart from the major adjusting forces set into operation by gold movements and changes in internal central bank policy) certain other results of the decrease in export prices which lead to tendencies towards a new equilibrium of the balance of trade: the direct decrease in the demand for import products on the part of exporters and the further decrease in the demand for foreign commodities which results from the decreased expenditure on the part of exporters on domestic products. The problem is whether after a decline in the value of exports the value of imports will fall enough to maintain roughly the same relation between the two sides of the balance of trade.

Under conditions of extremely reduced incomes of the exporting section of the community, the adjustment to the unfavourable development of terms of trade may be easier for agricultural than for industrial countries. For if incomes of exporters have been reduced to such an extent that further decreases (resulting from a further fall in export prices) lead to increased offers of export products, such an increase in the supply, in the case of an agricultural country, is more liable to increase the total value of exports because of the small influence which changes in the supply of a *single* agricultural country have on the world price of the commodity. In practice changes in foreign demand

[1] As the income of the exporting section of the community declines, certain domestic products will be substituted for more expensive foreign products. The greater the readiness of domestic industry to supply such products the greater the decline in the value of current imports.

and increases in the supply of large agricultural areas have generally counteracted such a favourable tendency of the balance of trade. A complete adjustment by increases in the *value* of exports has not been possible.

(2) How far in actual practice did adjustment to these changes proceed from 1927–1930, i.e. during the period when the decrease in capital imports must be considered of greater importance than the decrease in agricultural values? A consideration of the table on page 56 will show that there has been a general correspondence between decreases in long-term capital imports and the "unfavourableness" of the current balance of payments. With decreases in the imports of capital, deficits declined or surpluses increased. The connection was particularly striking in the case of Germany where it continued until 1931. But the same tendency may also be observed quite clearly in the cases of Hungary, Bulgaria and Latvia. By 1930 the deficits on current account of the balance of payments had been considerably reduced. Among the countries considered here, Denmark was the only exception. On the whole, there existed a tendency towards a new equilibrium of the balances of payments, an equilibrium no longer supported on one side by an influx of foreign long-term capital.

This favourable tendency came to an end in 1930–1 for the majority of the countries under consideration. Only in Germany and to some extent in Estonia and Latvia, did the process of adjustment continue at the old rate. The deterioration of the trade balance was the predominant technical cause of the sudden break in the process of adjustment and unfavourable development of the *current* balance of payments; but it was not the only cause. The following table shows the development of trade balances in a number of European countries :—

TABLE V. BALANCE OF TRADE OF A NUMBER OF EUROPEAN COUNTRIES, 1927—1931 (000,000's)

	Germany.	*Austria.*	*Hungary.*	*Yugo-slavia.*	*Greece.*	*Denmark.*	*Bulgaria.*	*Estonia.*	*Latvia.*
1927	− 688·4	− 152·0	− 65·9	− 31·6	—	− 52·0	6·7	2·4	− 1·0
1928	− 297·8	− 149·3	− 67·4	− 38·3	—	− 21·2	− 1·7	− 1·4	− 2·9
1929	7·4	− 154·7	− 7·8	− 9·4	− 81·2	− 22·0	− 12·8	− 1·8	− 1·7
1930	391·6	− 119·3	10·8	− 3·1	− 64·0	− 31·3	8·7	− 0·9	− 3·0
1931	680·8	− 121·5	2·8	− 0·1	− 59·5	− 33·8	5·0	2·5	− 0·6

With the exception of Greece, all countries whose current balance of payments turned unfavourable from 1930 to 1931, also suffered a decrease in their export surplus or an increase in their foreign trade deficit. Without this development, the

unfavourable movement in the current balance of payments would have been much smaller. In Hungary more than half the deterioration was due to a decrease in the export surplus. In Bulgaria, the current balance of payments would have remained unchanged if it had not been for the increase in the trade deficit. Only in Denmark a large proportion of the change was due to a decrease in that country's surplus on account of "other services" and to an increase in the deficit on account of interest and dividend payments.

There can be no doubt that full adjustment of the current balance of payments was rendered very much more painful by the existence of fixed obligations. But if it had not been for a decrease in export surpluses and an increase in foreign trade deficits, the necessity of paying fixed foreign obligations should not, in most cases, have added to the strain on central bank reserves. Since the deterioration of the current balance of payments must be largely attributed to an unfavourable tendency in the commodity balance it would be wrong to see in the existence of fixed charges a justification for the anxiety these countries displayed over the stability of their currency.

(3) It should now be possible to indicate to what extent internal policies have been responsible for the development of the balance of trade in different countries during the period 1930–1. Since there is a difference between the effects of central bank policy in an industrial country and those in an agricultural country it is convenient to divide the analysis accordingly.

There can be no unequivocal proof that central bank policies have had a predominating influence on the development of various balances of trade. Let us, however, indicate briefly how different monetary policies will tend to influence the balance of trade of an *agricultural* country in a period of rapidly falling export prices. We are concerned with that stage of the development when exporters' incomes have fallen very low and when the effect of further increases in the prices of the commodities which exporters have to buy induces them to offer greater quantities of their own product. Under such conditions it is quite possible that a restrictive internal policy may not lead to an improvement of the balance of trade. For the decrease in imports which will be brought about by the depressing effect of a higher rate of discount on domestic incomes may be counterbalanced by the effect of lower prices of domestic goods on exporters' foreign sales. Unless the rise in the rate of discount increases exporters' costs by more than it raises their real

incomes (through a reduction in the prices of domestic articles currently purchased by exporters) a restrictive central bank policy may prevent an increase or even lead to a decrease in exports. The ultimate result of a restrictive central bank policy under these conditions depends therefore not only on the extent of the almost certain decrease in imports but also on the extent of a possible decrease in exports. Thus, since the two sides of the balance of trade do not necessarily move in opposite directions (i.e. a decrease in imports and an increase in exports) the chances that a *restrictive* policy will improve the balance of trade are not inconsiderably reduced. A policy, on the other hand, which maintains the prices of some of the products currently bought by exporters may induce them to maintain exports at a higher level than they would have done had internal prices fallen more than, or at the same rate as, export prices.

Of the agricultural countries whose terms of trade deteriorated in 1930–1 the balances of trade of Yugoslavia, Latvia and Estonia [1] improved while those of Hungary, Bulgaria and Denmark showed an unfavourable tendency. Let us now inquire to what extent central bank policies were in the first group of countries instrumental in bringing about adjustment and to what extent it may be said that such policies impeded adjustment in the second group.

In *Yugoslavia* the central bank carried through an extremely cautious policy. Incomes of the exporting section of the community must have fallen considerably. But it is impossible to say whether a more liberal internal policy would have maintained exports at a higher level. The fact that the cost of living index fell by about 10 per cent from 1930 to 1931 while in six other agricultural or semi-agricultural countries [2] it fell by only 5 per cent (average) may have prevented Yugoslavian exporters from maintaining supply at a higher level. Nevertheless, the value of exports fell less than that of imports. And after an unfavourable balance of trade in 1930, the deficit disappeared entirely in 1931. The restrictive policy of the central bank seems thus to have had a greater influence in decreasing imports than in decreasing exports.[3]

[1] In the case of Greece, the extent of the favourable development was negligible.

[2] Bulgaria, Denmark, Estonia, Greece, Hungary, Czechoslovakia.

[3] The favourable development of the balance of trade continued in subsequent years and no restrictions on imports were introduced until the year 1936. The reasons for import control at that time were in the nature of commercial rather than currency policy; (see, for example, article in *Frankfurter Zeitung*, 16th April, 1936).

After a series of deficits during the period 1928–1930 *Estonia's* foreign trade showed a surplus in 1931. In the case of *Latvia*, the deficit fell in 1931 to about a fifth of its value in 1930. Estonia's surplus became possible through an increase in the volume of her exports (in spite of the drop in export prices) accompanied by a heavy decline in imports. The increase in the volume of exports was by itself not sufficient to maintain their value. Nevertheless without the increase in the quantity of exports their value would have remained much lower and the surplus might not have developed. The central bank of Estonia did *not* carry through a deflationary policy. In fact Estonia was the only country whose central bank did not raise its rate of discount in 1931.[1]

Though the development of Estonian foreign trade is not a definite verification of our theoretical reasoning,[2] a comparison of the Estonian and the Yugoslavian case shows that there is no necessary connection of the accepted kind between central bank policy [3] and the development of the balance of trade under conditions of excessively reduced incomes and falling export prices. The Latvian balance of trade improved as a result of a relatively greater decrease in the value of imports. The volume of exports fell by about the same proportion as its value, an indication that the composition must have changed, i.e. adjustment in the value of exports did not proceed through an increase in volume but by means of a substitution of relatively higher priced commodities. The effects of central bank policy on the balance of trade seem to have shown themselves mostly on the import side. According to its report for 1931, the National Bank of Latvia restricted those credits which were inclined directly to lead to increased imports.

Before drawing any general conclusions concerning the effects

[1] i.e. of the countries which introduced exchange control in that year.

[2] For the purpose of illustration, the development of volume and value of Estonia's foreign trade is shown in the following table :—

	Imports.		*Exports.*		*Balance.*
	Volume.	*Value.*	*Volume.*	*Value.*	
1929 . .	501	122·4	444	117·4	– 5·0
1930 . .	497	98·3	386	96·4	– 1·9
1931 . .	372	61·1	407	71·0	0·9

Volume : metric tons, 000's omitted.
Value : Estonian Krona, 000,000's omitted.
Source : League of Nations, *Statistical Year Book 1935–36*.

[3] In a parliamentary inquiry, made some years after the financial crisis, it was revealed that a certain government owned bank came to the rescue of a number of commercial banks in distress in the autumn of 1931 see *Eildienst*, 9th March, 1934.

of central bank policy from the experience of the countries just discussed, let us briefly inquire into the development of foreign trade in those agricultural countries whose trade balances showed an unfavourable tendency in 1930–1.

In *Hungary* the unfavourable development of the current balance of payments was due partly to a decrease in her export surplus and partly to an increase in the deficit on foreign interest and dividend account. The decrease in the export surplus made up more than half of the change in the current balance of payments. It was itself due to a greater decrease in the value of exports than of imports. This happened, notwithstanding the fact that the volume of imports fell by about one-third, while the volume of exports fell only by one-fifth. In spite of the fact that the volume of exports was maintained relatively high, their total value decreased heavily on account of the drop in the prices of agricultural commodities. One of the reasons why the volume of exports was not higher (in which case the unfavourable tendency of the balance of trade might have been reduced) was a bad crop in 1931. Internal prices of industrial goods were relatively high, a situation which might have induced agricultural exporters to increase their supply, had it not been for the bad harvest. At the same time, relatively high production costs in industry reduced the volume of industrial exports.[1] There are strong reasons to suppose that the failure of the government to make stronger efforts to balance its budget maintained incomes of the community at a level which greatly impeded the adjustment of the value of imports to the decreased value of exports. This policy, rather than the comparatively slight expansion of central bank credit during the financial crisis, seems to have been the main reason for the unfavourable development of the Hungarian balance of trade.[2]

In *Bulgaria*, as in Estonia, the supply of export products increased with a fall in their prices. But even an increase of more than 40 per cent in the quantity of exports from 1930 to 1931 did not prevent some decrease in their value. The value of imports, on the other hand, rose while their volume decreased. The decline in real incomes of the exporting section of the community was not as large as the enormous drop in export values combined with an increase in the quantity exported would lead one to suppose. For Bulgaria had a very good crop

[1] League of Nations, *Review of World Trade, 1931–2*, p. 42.

[2] Import restrictions were introduced simultaneously with a general system of exchange control in August, 1931.

in 1931. Since the total value of exports fell, the total income derived from exports must have fallen. On the other hand, the statistics do not only show an increase in the total value of imports but lead to the conclusion that higher priced articles were imported. An accurate explanation of this apparent paradox would necessitate detailed research into the changes in, and shifts of, expenditure on the part of Bulgarian nationals. Let it suffice, in the present context, to indicate certain reasons for the theoretical possibility of an increase in imports and of the purchase of higher priced articles. We know that, during the financial crisis, the National Bank of Bulgaria came to the rescue of the commercial banks. There was no sharp increase in the rate of discount and it seems that the funds which the public withdrew were not hoarded for a very long time but were either invested or spent directly on consumption shortly after the internal drain.[1] The conditions for a maintenance of the level of imports were given. That imports actually increased during a period of falling incomes derived from exports may have had different causes. Incomes of exporters' co-nationals probably increased. Either the decrease in incomes which would necessarily have been brought about if exporters reduced their domestic purchases was outweighed by the increase in real incomes accruing to the other sections of the community as a result of the fall in the prices of export goods or internal purchases by exporters did not decrease at all but rose as exporters shifted their consumption to home produced articles. The probability that the reduced foreign purchases on the part of exporters were to some extent compensated for by increased foreign purchases on the part of exporters' co-nationals may not by itself have led to an increase in the value of imports. But a further tendency for imports to rise was probably brought about by a combination of the favourable anticipations on the part of importers as a result of the good crops and their simultaneous anxiety that the government might tighten existing currency restrictions. More severe regulations with respect to luxury articles were justly expected, which would go some way towards explaining the otherwise paradoxical shift to higher priced articles.[2]

[1] This statement is based on information obtained verbally from Professor Zagoroff of the University of Sofia.

[2] Though the legal reserve of the National Bank was at that time still above the minimum stipulated in its statutes, exchange control was made stricter around 15th October, 1931. Fear that the unfavourable tendency of the balance of trade would continue and make the payment of fixed obligations impossible in the absence of new foreign credits led the National Bank to urge a severe limitation of imports.

It remains to deal with one more agricultural country whose balance of trade became unfavourable in 1930–1 and which introduced one of the most complete systems of import control through currency measures in existence. This country was *Denmark*. Exchange restrictions on imports were introduced in the first instance in order to maintain the currency at the new depreciated level and secondly as a means of directing trade into channels thought advantageous from the point of view of external commercial policy. The chief technical reason for the unfavourable development of the Danish balance of payments from 1930 to 1931 was not so much an increase in the trade deficit as an increase in the deficit on interest and dividend account and a decrease in the surplus on account of " other services ". Since the terms of trade did not deteriorate as rapidly and as much as those of other agricultural countries, there is a strong presumption that the incomes of Danish exporters were maintained at a relatively high level. For this reason, there was probably very little tendency on the part of exporters to increase their supply as a result of the relative increase in the prices of the products they bought for their own consumption. The relative expansion of credit in Denmark in 1931 will thus have tended to influence the balance of trade from the import side alone rather than from both sides. Imports were indeed maintained at a relatively high level. According to Iversen [1] the restrictive policy of the bank (immediately after devaluation) was short lived and the net effect of the policy was an expansion of credit which helped to maintain the demand for foreign commodities. Without this expansion, the total value of imports would have been kept at a lower level. The total current balance of payments would not have become unfavourable to the same extent and the need for restrictive measures on imports would have been much smaller.

Our survey of the actual development of certain balances of trade and of particular central bank policies has shown that even under abnormal conditions an orthodox policy was still the *safest* way of dealing with difficult situations. At the same time, we have seen that the absence of such a policy (Estonia) did not always prevent adjustment from taking place by an increase in exports. On the other hand, there was, on the basis of our theoretical reasoning, no guarantee that adjustments might not have proceeded with even greater ease in some cases if central bank policy had not been as orthodox as it was

[1] See *Weltwirtschaftliches Archiv*, vol. 34, January, 1936, Heft 1, pp. 29–61.

(Yugoslavia). For these reasons, it is not strictly correct to lay part of the blame for an unfavourable development of the balance of trade at the door of the authorities if their policy has not been restrictive nor to consider a favourable development of the balance of trade the result of a cautious policy. We should therefore be inclined to attribute the unfavourable development of the current balance of payments in Hungary, Bulgaria, and Denmark *mainly* to causes beyond the control of the central banks of these countries.

It remains to deal with the chief *industrial* countries whose terms of trade did not become unfavourable in 1930–1 ; *Germany* and *Austria*. During the first stages of the system of exchange control, Germany was able to avoid measures designed to reduce imports for reasons which will become clear presently, while Austria saw herself forced to control imports mainly as a result of her internal financial policy.

The cautious policy of the *Reichsbank* in 1930–1 assisted the favourable development of the balance of trade which had begun in 1928–9 as a result of the decrease in capital imports. True, during the financial crisis of 1931 and also in the autumn of 1930, the central bank of Germany came to the rescue of the commercial banks in distress, but the cost of credit was raised and for a time the Reichsbank restricted credit directly to a volume below that which would have obtained had the higher discount rates alone been effective. The initially favourable position (from the point of view of currency stability) in which Germany found herself on account of the relatively greater fall in import prices from 1930 to 1931 was improved by the policy of the central bank and the deflationary policy carried out with considerable success under the chancellorship of Brüning. As a result of these policies it was not necessary at first to introduce measures designed to improve the balance of trade. The restrictions on import payments which did exist during the first and part of the second year of the German exchange control system, had as their purpose the prevention of irregular capital exports, i.e. they were imposed in order to prevent the allotment (by the Reichsbank) of foreign currency allegedly for imports but in reality for the purpose of exporting capital.

Austria's main difficulties arose from the withdrawal of foreign credits and the expatriation of national funds. On the other hand her current balance of payments probably began to show a marked increase in its deficit in 1930. Therefore the reduction in the currency reserve of the National Bank, a development

which menaced the stability of the currency, must have been caused, to some extent, by the increase in the current deficit. There are strong reasons for the belief that the expansion of credit in connection with the failure of the *Credit Aushalt* helped to maintain the existing deficit in the balance of trade. Without this expansion, the purchasing power of the community would probably have been reduced to such an extent that part of the deficit could have been wiped out by a greater decrease in imports. For otherwise the conditions were favourable for Austria ; her export prices decreased considerably less than her import prices. Although a really restrictive policy on the part of the central bank would have had disastrous internal consequences, the extent of assistance given to the commercial banks in distress during the financial crisis of 1931, was more than sufficient. Without this extra assistance the alleged need for import restrictions would have been considerably smaller.

This closes our inquiry into the role played by central bank policy in the development of trade balances in 1930–1. In the cases of the agricultural countries, the failure of trade balances to adjust themselves to the new conditions of international demand was primarily a result of circumstances over which the countries concerned had no control. Under the conditions with which we were concerned the effects of central bank policy could not be predicted with nearly the same degree of certainty as under a " normal " unfavourable development of the balance of trade. Indeed we have seen that such policies might well have had results which were contrary to those generally brought about by the same policies. For this reason it is in the case of the agricultural countries in question of little value to lay even part of the blame for the situation at the door of the authorities. In the case of industrial countries, on the other hand, it is possible to distinguish between policies which were inclined to facilitate adjustment and those which tended to make it more difficult. Germany is the outstanding example where financial policy favoured adjustment so that there was no direct justification for an immediate introduction of import restrictions. On the other hand, the policy followed by Austria was found to aggravate the unfavourable development of the balance of trade and therefore made it possible for the government to justify import restrictions by declaring that they were " necessary in order to save the national currency ".

In all the countries so far considered, import restrictions formed part of all-embracing systems of exchange control.

In order to complete the picture of the causes which led to direct exchange regulations, it is necessary to deal briefly with the reasons for the establishment of partial control in certain countries. The same regulations were also introduced in countries which had established full import control. But while in these countries they generally implied an alleviation of the existing restrictions, in the others they constituted the only interference with the payment of import commodities.

The purpose of the regulations with which we are now to deal was not to restrict imports but to organize payment of them in such a way that the funds paid for imported products could be immediately used for the payment of exports from the same country. Although *exchange clearing*, as this new form of settling international accounts became to be called, is one of the few currency measures affecting commodity trade which is generally not intended to limit imports, it constitutes a direct intervention of the state in international trade and therefore must be considered. What were the reasons for its establishment and what is its importance in international trade?

Since the establishment of exchange control in a large number of countries, the transfer of export payments has become increasingly difficult. In the first place, sums due to exporters were blocked when the "shortage" of foreign exchange became apparent, i.e. importers could not obtain the necessary foreign exchange to pay for the goods they had received. If the exporting country was in the habit of purchasing more commodities from the restricting country than the latter purchased from the free country, it was clear that the debts to the victimized exporters could be met by the payments generally made by importers of the free country to exporters of the restricting country. The first clearing agreements arose on this basis.

The second type of clearing agreement also was a limited reversion to common sense. If two countries found that both of them restricted each others' exports on account of a lack of foreign exchange, the direct exchange of products without a foreign currency transaction seemed the obvious way out. However small the initial justification for the introduction of import restrictions may have been, and to whatever unfavourable consequences the introduction of exchange clearings may have led in the end, there can be no doubt about the sense of such measures when the choice lay between trade *via* exchange clearing or no trade at all.

The desire on the part of exporters in free countries to keep

up trading relations with countries which established exchange control (i.e. not only the collection of debts from such countries) is apparent throughout the history of the negotiations between the various countries.[1] The wish on the part of the "controlling" countries to avoid retaliatory action from "free" countries also played a part in inducing financially weak countries to conclude clearing agreements. True, in certain isolated cases, exchange clearing was "imposed" with the express purpose of reducing imports from a particular country,[2] but the conception of exchange clearing as merely a method of debt collection or as a means of reducing imports is decidedly too narrow.

The introduction of the first type of exchange clearing, generally put into operation when the export proceeds (and possibly other financial obligations) are not transferred from a "controlled" country to a "free" country, was based in many countries on legislation which made this kind of government intervention possible. A *French* law of December, 1931, empowered the government to establish exchange clearings providing for *compulsory* payment on the part of French importers into clearing accounts. It became effective when in February, 1932, the first French clearing account was introduced against Estonia. *Switzerland*, though actually operating a clearing account before that time introduced similar provisions in January and *Holland* in March, 1932. Initially the Dutch law empowered the government to make clearing agreements only under certain conditions. In July, 1932, the government, if it so desired, could apply one-sided action against other countries. But a year later, the government was empowered to introduce compulsory clearings against any sort of discrimination of Holland by means of exchange restrictions. *Sweden* empowered her government in May, 1932, to introduce compulsory clearings in the case of foreign exchange restrictions operating to the disadvantage of Swedish nationals.

The original suggestion that bilateral exchange clearings be introduced seems to have come from Professor Reisch, then

[1] See, for example, letter of Dr. Berger, head of the German delegation which negotiated an agreement with Great Britain in July, 1934 (cmd. 4640) where the desire that "the volume of mutual trade should be maintained and as far as possible increased" is declared to lie at the basis of the agreement.

[2] See, for example, *Die Bank*, 15th March, 1932: *Czechoslovakia* made for a time the payment of imports from Germany dependent on, and equal to, the amount of German imports from Czechoslovakia in order to reduce the deficit for Czechoslovakia in the Czech-German balance of trade.

president of the National Bank of Austria. But the first clearing agreement to be put into operation was that between *Switzerland* and *Hungary* in November, 1931. Though in later years many refinements have been introduced in the form of all kinds of checks and limitations on the payments which may be made into clearing accounts, this first agreement served as a model for those to come and illustrates the principles well enough.

The basis of the Swiss-Hungarian agreement was an import surplus on the part of Switzerland in the bilateral trade account between the two countries. Exchange restrictions in Hungary prevented the transfer of payments to Swiss exporters. In order to satisfy the latters' demands (*a*) in the form of obtaining the funds due to them, and (*b*) of retaining their export market in Hungary, it was agreed that all Swiss importers of Hungarian goods should pay the purchase price of their orders into an account of the Hungarian National Bank with the National Bank of Switzerland. Hungarian importers of Swiss goods, on the other hand, were to pay for their orders into an account of the Swiss National Bank opened for it by the National Bank of Hungary. The Swiss exporters were then paid out of the Hungarian account in Switzerland and Hungarian exporters partly from the Swiss account in Hungary.[1] Until outstanding debts to Swiss exporters were paid up it was provided that a certain proportion of the payments made by Swiss importers into the account should be used to satisfy past debts to exporters. The rest of the surplus was to be put at the free disposal of the National Bank of Hungary, this proportion to be increased, once all outstanding debts were paid up. Clearing agreements of a similar type were subsequently introduced by Switzerland with a large number of other exchange control countries (8 by March, 1935), and by *France* (11 by March, 1935), *Holland* (3 by March, 1935), *Belgium* (8 by March, 1935), *Norway* (3 by March, 1935), and *Sweden* (2 by March, 1935).

The second type of clearing agreements, i.e. those concluded between two exchange control countries, had also the object, at times, of collecting outstanding debts by one country from the other or by both from each other. Thus, *Germany* took the initiative in the conclusion of clearing agreements with Hungary, Bulgaria, and other countries of South-Eastern

[1] See Art. 2 of the agreement.

Europe in order to recover her frozen debts.[1] The main reason for exchange clearing between countries which had *both* introduced exchange control was generally the desire to increase bilateral trade.[2] By the end of 1937 all exchange control countries had clearing agreements with at least one other exchange control country. The majority of them had more. Germany had about fifteen with European exchange control countries alone.

The systems of trade restrictions which were introduced as a result of the two major developments of international importance which characterized the depression of 1929–33, i.e. the precipitous fall of agricultural values and the sudden movements of short-loan capital, have remained intact to this day (1937). The original causes of the introduction of quantitative import regulation and exchange control are no longer operative. But the very effect on the character of domestic economic activity of the new methods of foreign trade control have made their abolition difficult. During the past seven years quotas and exchange restrictions have determined the direction of production in the controlling countries. And, while most governments continue officially to praise the advantages, from the point of view of an advance in the general standard of living, of a return to more freedom in international trade, in reality the anticipation of painful re-adjustments as well as political anxiety prevent them from taking the steps that would make a more economic use of international resources possible.

[1] See *Wirtschaftsdienst*, 26th February, 1932, and an article by H. Gross, "Ausgangspunkte, Formen und Wirkungen der Devisenzwangswirtschaft," *Archiv f. Sozialwissenschaft u. Sozialpolitik*, April, 1933.

[2] For the different reasons which induced particular countries to establish exchange clearings see League of Nations, *Inquiry into Clearing Agreements*, 1935, II, B. 6.

PART II

THE METHODS OF FOREIGN TRADE CONTROL

INTRODUCTION

In the preceding section the general limitation of imports and the particular conditions determining the choice of either quotas or exchange restrictions have been analysed and now the technique of these methods can be examined. Existing quantitative measures of import limitation as well as the exchange restrictions designed to restrict foreign purchases vary with respect to administrative detail with the countries of application and the particular commodities affected. More important than an elaborate description of such differences is an analysis of the general characteristics of certain standard types of the regulations of both kinds, a method of inquiry which will demonstrate more easily the relative advantages and disadvantages of the control systems involved.

There are in general two types of governmental interference with private economic activity. The control authorities may either make use of market forces in the endeavour to influence the free choices of individuals in the desired direction, or they may restrict the available alternatives in such a way as to prevent certain choices which, based on price and quality considerations, individuals would make in the absence of such obstacles. Although there may be in most cases a measure of the first category which corresponds to a measure of the second with identical effects in the end, the particular immediate consequences will tend to differ. Furthermore a government may not, either for economic or institutional reasons, be in a position to employ either the one or the other method to achieve the desired end.

For these reasons a distinction between the two methods is worth while. In the particular field of quota restrictions the type of measure which attempts to influence individual choice by market forces is represented by the so-called *tariff quota*. Direct prevention of free choice by restriction of the available alternatives exists, on the other hand, in the case of the ordinary quantitative restriction forthwith referred to as the *import quota*.

Governments, in order to achieve their general purposes with

a minimum of internal or external opposition, have frequently delegated their powers of control to the bodies immediately affected by the regulations involved. In connection with such a transfer of control it has at times been found convenient for those to be protected in one country to confer with the nationals of the country or countries affected by the new protectionary measure. Instead, therefore, of the government *autonomously* establishing a particular restriction, limitations of existing or potential markets have—though under the supervision of the authorities—been decided upon *bilaterally*. The further distinction between autonomous and bilateral import quotas thus arises.

No distinctions of this kind are needed in the case of exchange control. By far the greater number of exchange restrictions have been imposed without previous consultation with the countries whose nationals might be affected by such measures. Exchange control as defined in the introduction to this inquiry is not operated through market forces but by limiting directly the choices which individuals are permitted to make.

Chapter VII

THE TARIFF QUOTA

Under a tariff quota a specified quantity of a particular commodity is permitted to enter the country under a lower tariff than any quantity beyond this specified maximum. While the ordinary import quota is a comparatively recent method of import limitation, the tariff quota has been used in isolated cases for a long time past. Frequently it was introduced into trade treaties when it was believed that the conveniences arising from it to the contracting parties would be very much greater than the damage done to those not partaking in the limited tariff preference. Tariff quotas were thus used in order to facilitate small frontier trade by allowing in a determined quantity free of duty or at a lower rate than the general tariff,[1] or in order to encourage the importation of particular products from particular countries.[2]

Thus preferences for stipulated quantities of butter and certain types of cattle were granted by Germany to Finland and Sweden respectively.[3] The Franco-German treaty of 1927 also established tariff preferences for definite quantities of particular articles and arrangements of a similar nature have existed between France and Czechoslovakia since February, 1931. Shortly before the introduction of import quotas, tariff quotas were granted by France to Italy [4] and Greece [5] for certain types of wines.

All these special provisions constituted, of course, evasion

[1] Examples of such uses of the tariff quota are cited, for example, by Angelini, op. cit., p. 33; he mentions a case of a tariff quota inserted into a treaty of 1839 between Belgium and Luxembourg according to which the former allows in 4,000 tons of cast iron at a lower duty; see also his appendix, p. 165 et seq. See also Tomitch, op. cit., p. 20, on tariff quotas between Austria-Hungary and Italy in connection with a treaty of 1906.

[2] German-Finnish treaty of 29th August, 1930, and German-Swedish treaty of 30th November, 1931.

[3] 16th March, 1931.

[4] 23rd May, 1931.

[5] In connection with Clearing Agreements, this object of tariff quotas has been particularly apparent. For examples (preferences on certain quantities of wheat and flour exported to Czechoslovakia from Hungary) see *Oesterreichischer Volkswirt*, 4th June, 1932, p. 866.

of the most favoured nation clause, but the countries not parties to the particular contracts have generally not considered their exclusion from them important enough to renounce existing treaties.[1] At other times—though less frequently—a quantitatively limited tariff preference has been applied to the importation of certain commodities from all countries, as, for example, in the case of frozen meat in Germany from 1925–1930.[2]

Before Switzerland introduced tariff quotas on a large scale in 1931–2, this type of import limitation had a rather spasmodic existence. Switzerland, as distinguished from France, Belgium and Holland, resorted to tariff quotas in preference to ordinary import quotas in the belief that the former would be less incompatible with the existing most favoured nation treaties. Soon it was found, however, that the desired extent of protection could not be achieved by tariff quotas and the earlier objection to them was waived. Since then, in many cases, import quotas were substituted for existing tariff quotas.[3] At the end of 1937 Switzerland was still the only country applying tariff quotas on a large scale.

The effects on the prices of imported commodities of a tariff quota will be considered more fully later in this volume.[4] Suffice to say here that under given conditions of internal demand for the commodity imported under a tariff quota, imports in excess of the preferential quota tend only to come into the country if the super-tariff is smaller than the profits arising from the difference between the foreign price and the domestic price which has risen absolutely or relatively on account of the restriction. If the higher tariff is fixed at a lower level than would correspond to the difference between the internal and the external price additional quantities of import commodities will enter the country.

A tariff quota corresponds therefore to a larger ordinary import quota and is for this reason less likely to restrict trade to the same extent as the *guillotine* quota as the ordinary import quota has been called.[5] If there exists no possibility of importing additional quantities of a particular commodity (even by the

[1] Cf. Weiller, *Revue des Etudes Co-opératives*, 1931–2, p. 362 et seq.
[2] See Häfner, *Weltwirtschaftliches Archiv*.
[3] Thus, for example, the existing tariff quota on bicycle spokes was changed to an import quota in 1934 (VIII report, 2nd March, 1934). Certain articles made of lead, leather products and knives followed in 1935 (XI report, March, 1935).
[4] See Chapter XI.
[5] Lautman, op. cit., p. 81.

payment of the normally prohibitive tariff) the loss on quantities ordered in excess of the quota is likely to be larger than if such a tariff could have been paid and the commodity sold on the internal market. For unless the tax on imports in excess of the tariff quota exceeds the value of the foreign article by the difference between the domestic and the foreign price of the commodity in question or by more, the importer will have to bear a smaller loss if he pays the high tariff than if he had lost the total amount paid to the foreign exporter.

Chapter VIII

THE AUTONOMOUS IMPORT QUOTA

Except in Switzerland where the tariff quota was and still is (1937) an important part of the system of quantitative import control, the tariff quota was only used in isolated cases. The ordinary import quota is the most general form of quantitative regulation.

The technical structure of this type of trade restriction has changed in different countries since its first application. Some general examples will indicate the extent and direction of the changes.

If the imports of a certain commodity show a rising tendency, and if it is deemed necessary to curtail them quantitatively, the simplest method obviously is to fix a definite amount which may be imported during a particular period of time. This *prima facie* least complicated method has been employed by a number of countries for various commodities until the particular technical difficulties arising from this form of quota induced the respective control authorities to modify or alter it entirely. Once such changes were made, new problems arose so that in some cases the authorities returned to the use of the first method.

In the case of the *global* quota, as that form of quantitative restriction has been called which did not specify the proportions of the total importable quantity which could be shipped by the various exporting countries, the administrative and economic disadvantages generally arose so soon after its introduction that it was abandoned at an early date. There are still a considerable number of global quotas in existence and since this form of quantitative import regulation illustrates certain problems of control, it may be well to consider it briefly.

The first quantitative restrictions to be introduced in *France* were global quotas.[1] The formula was given by the limitation placed on the importation of flax. In the other important countries making use of quotas, the global quota found no adherents; in *Turkey*,[2] however, and in *Greece*,[3] quantitative import control also began with the introduction of global quotas.

[1] Those, for example, for meat, animals, and, at first, for cut flowers.
[2] *Industrie und Handel*, 24th August, 1932.
[3] *Eildienst*, 6th December, 1934.

In the case of a global quota the only restriction imposed is a limitation on the entry of the quantity of a particular commodity during a particular period. As neither the amount which may be purchased by individual importers nor the proportions which may be shipped by the various exporting countries are specified, two sudden competitive movements may be expected. In the first place, there will be a rush of importers to buy before the quota is exhausted and, in the second place, exporters will attempt to ship into the quota country as large a quantity of the restricted commodity as possible during the time when such shipments may still be made. The problems arising from these sudden movements are manifold, apart from the purely administrative difficulties.

The maintenance of free competition among importers on the one hand and exporting countries on the other while the government fixes the total volume involved in the transactions necessarily gives rise to two kinds of injustice. The mere fact of geographic proximity will give an advantage to those of the countries supplying the same commodity which lie closest to the restricting country.[1] As F. A. Haight has emphasized, the fact that exporters of distant countries would have to begin shipments before the quota has been announced increases the element of uncertainty already present in a system under which the legally importable quantity of a particular commodity may be reduced from one day to another to a fraction of former requirements. If the proportions of the total importable quantity which may be supplied by the different exporting countries are not specified the commendable principle of non-discrimination between such countries seems to be retained. There can, however, be no doubt that in this case it is the letter rather than the spirit of equal treatment which is observed.

Another type of injustice attendant on the use of the global quota without import licences is the additional advantage which may easily accrue to large firms; for if the total amount which may enter the country during a given period is limited, those who are able to order a large quantity at a moment's notice will be placed in an advantageous position. Necessary credit facilities are obviously more freely available to firms which, by virtue of their size and power, have at their disposal well developed bank connections. Since the restriction of imports

[1] Various students of the French quota system have drawn attention to this type of unintentional discrimination. See, for example, Haight, op. cit., p. 22, and Angelini, op. cit., p. 50.

will tend to give rise to extra profits on import transactions, the gains to large firms may rise relatively more if small importers have to be content with a heavily reduced remainder of the restricted import commodity.

The desire to transact as much business as possible before the exhaustion of a particular quota and the consequent rush of commodites across national frontiers may have the effect of suddenly flooding the market particularly in the case of perishable commodities. Instead of the protection which the quota was designed to afford to certain home produced commodities, it has thus had the effect of temporarily depressing prices still more in many instances.[1] This has happened where a commodity was already subjected to a quota limitation and more particularly in the case of foreign articles which were expected to be limited in the near future.[2] This criticism has been made by both the general adherents of the system [3] and by its antagonists. Thus the second group unwittingly at times became an instrument of propaganda for stricter control.

The sudden onrush of foreign commodities before [4] or at the announcement of a global quota has often caused the quota for a particular period to be vastly exceeded. "Le premier éffet paradoxal du contigent global," writes Weiller in the *Revue Economique Internationale*,[5] "est ainsi de détourner au debut même de la période pour laquelle il est calculé, un engorgement du marché de caractère purement speculatif, alors qu'on s'éfforce d'en restreindre l'encombrement." [6] A few examples of instances where the quota was thus exceeded may illustrate this effect of the global quota. In the case of cattle the French quota (fixed by weight) for the last quarter of 1931 was exceeded

[1] See, for example, Angelini, op. cit., p. 131 *et seq.* In France this happened in the case of butter, animals, and meat.

[2] The *St. Galler Tageblatt*, 20th February, 1932, reported cases of imports into Switzerland which increased twentyfold (per month) in anticipation of import restrictions.

[3] See, for example, *Tomitch*, who may be said to be in favour of quotas by agreement, op. cit., pp. 52–53, where he writes that global quotas encouraged imports "de sorte que l'on pouvait dire pour la France que toutes les matières contingentées et importées sur cette base n'avaient reçu aucune protection jusqu'en janvier 1932".

[4] Such increases in imports became possible by virtue of the "Transitory" Clause in French Customs legislation which provides (particularly in the case of tariff increases under the *loi de cadenas*, see Haight, op. cit., p. 5) that goods shipped before the announcement of a new tariff will be admitted at the old rate, a provision now applied to quotas. See Haight, op. cit., p. 22. Administrative inefficiency helped to bring about this result.

[5] June, 1932, p. 507.

[6] See also Proix, *Europe Nouvelle*, 20th February, 1932.

by 66 per cent, for pigs by 100 per cent.[1] Angelini [2] cites the case of a certain type of glue, of which 20,888 quintals were actually imported into France during the first quarter of 1932, while the quota amounted to only 4,460.[3]

Such abnormal increases of imports and evasions of existing quotas can hardly be avoided in the case of a global quota. The greater part of imports into the European countries which have resorted to quantitative limitations is shipped by land; the number of customs houses through which imports are liable to pass is much greater than, for example, in the case of Great Britain. If there is a sudden onrush of imports, the authorities can hardly be expected to know at each moment to what extent the quota has been used. At times ten to twelve days elapsed after the actual importation until the reports from the various customs houses reached the central authorities.

Apart from the injustices to certain individual importers on the one hand and the administrative difficulties on the other, the global quota clearly gives rise to a great number of inconveniences to both importers and exporters alike. The one great disadvantage to all concerned is the new element of uncertainty which is introduced by the possibility of a sudden closing of the frontier. Since most of the opposition to global quotas came from the trading interests, it would appear that the occasional extra profits made by those who were first in the scramble for foreign commodities were frequently counterbalanced by the higher purchase prices resulting from the inclusion of an additional risk premium on the part of exporters.

Import restrictions as such have by no means always been opposed by traders. Once a system of licences is introduced, chances of monopolistic profits often outweigh the other inconveniences of governmental control in this field. In the case of the global quota, however, such inconveniences seem to have been considered more important than the possibility of special gains for some. Other disadvantages to be noted are losses on perishable commodities which, though ordered, could not be brought into the country [4] and the fact that speed of

[1] See Proix, *La Reforme Economique*, 31st January, 1932.

[2] Op. cit., p. 132.

[3] It is, of course, difficult to say to what extent such excesses were due to inefficiency and to what extent the authorities have intentionally admitted more goods than the quota had originally provided for.

[4] Haight, op. cit., p. 22, quotes *The Times* of 10th July, 1934, according to which twenty-seven tons of Turkish eggs after not being admitted into the country, had to be destroyed "as unfit for use".

transport to the frontier frequently took precedence over the quality of the goods.[1]

The two main problems which arise from the application of global quotas are thus (*a*) the unintentional discrimination against distant countries and against small importers, and (*b*) the additional element of uncertainty (in the widest sense of the word) which confronted traders. Both these disadvantages are caused to a considerable extent by the failure to introduce subsequent steps of regulation once the initial restriction, i.e. the fixing of the total importable quantity, has been established.

Here is an instructive example of a general and perhaps obvious tendency: that one governmental regulation must be followed by further measures of control if the original end is to be achieved. It is often extremely difficult to foretell what the secondary repercussions of a given measure will be, particularly in a system which still enjoys a large amount of economic freedom.

In our case the subsequent measures which became necessary from the point of view of the smooth operation of quantitative control were repartition of the total importable quantity among exporting countries on the one hand, and among individual importers on the other. Only in this way did it become possible to avoid a large part of the discriminations and uncertainties with which we have dealt.

In a number of important cases the change from the global quota to a quota divided among the different exporting countries was the outcome of the particular difficulties connected with the operation of the global quota. The technical development of quantitative import regulations has, however, not taken this course in all countries. For in some cases the initial structure of the quota provided for division among exporting countries.

During the early stages of import control and indeed during the initial period of restrictions on particular commodities, the *Swiss* authorities have very rarely applied a given import limitation to all countries. The rate of the increase in imports varied with the different exporting areas. Trade was not to be hampered more than "necessary"[2] and a selection was therefore made of the exporting countries according to the intensity of the new competition. Accordingly restrictions were imposed

[1] See, for example, Angelini, op. cit., p. 23.
[2] See I Report, doc. 2798, 29th February, 1932.

on the imports from those countries whose exports to Switzerland showed the greatest tendency to increase. The knowledge that the restrictions might lead to foreign retaliation also put a check on the scope of import limitations and induced the authorities to specify the sources of the imports to be reduced. The demands of Swiss commercial policy which played such an important part in the choice of the restricted commodities have also been carefully considered in connection with the determination of the countries which were to suffer from the new regulations.

The obvious possibility of evasion through importation via third countries was recognized very soon,[1] with the result that certificates of origin were in many cases made compulsory. At the same time the authorities made a point of watching the importation of the restricted commodity from countries to whom the limitations did not apply. Apart from the forms of evasion still possible in spite of certificates of origin,[2] relative prices in different countries, by virtue of the partial limitations, may be changed in such a way as to enable certain countries, though formerly unable to export a particular commodity, to do so. Although the price in the new country to the restricting country, will tend to be higher than in the original exporting countries, it may still be lower than in the controlling country. For these reasons Switzerland generally found it necessary to extend quota restrictions on a particular commodity to an increasing number of countries.[3] The final result in most of these cases was that the importation of a particular commodity was restricted throughout, but that the authorities divided the total quota among exporting countries.

Holland, also, began by restricting imports from particular countries. While Dutch trading interests were opposed to division of the quota by countries, it was the opinion of the government that global quotas would run contrary to the spirit of most favoured nation treatment.[4] The Dutch authorities were more concerned with the actual effects of their regulations than with the theoretically valid

[1] See ibid., p. 3.

[2] Even without considering faulty declarations of origin, movements of the seat of industry, changes in the ports of lading, and all kinds of financial arrangements are possible which, though increasing costs, may still make evasions of the restrictions profitable.

[3] See, for example, IV Report, doc. 2896, 22nd November, 1932; a global quota was introduced for shoes made of materials other than leather.

[4] See, for example, *Nieuwe Rotterdamsche Courant*, 17th December, 1932.

principle that the letter of most favoured nation clauses would be more closely observed if the quantities importable from different countries were not specified.

In the smaller countries of North-Eastern and South-Eastern Europe, where, even from the beginning of restrictions the principles of commercial policy played an important rôle, the authorities have generally specified (either in general or in connection with importers' licences) the amounts which could be imported from particular countries. Thus *Rumania* at times regulated the shares of the total quota which would be allotted to the different exporting countries according to the prevailing state of bilateral trade balances.[1] Since *Lithuania* avowedly intended to direct imports rather than to restrict them,[2] this country did not pass through an initial stage of import control through global quotas, but began by restricting imports from particular countries. In the original[3] *Polish* system, also, the desire to discriminate among exporting countries played a part. Import licences were thus made out for particular quantities to be imported from particular countries. The existence of very strict regulations concerning the origin of import products[4] also shows that Poland was as much concerned with importing from particular countries as with restricting the total volume of particular import goods. Reprisals against countries whose exchange control measures affected Polish exports increased this discrimination.

In comparison with the arbitrary methods of division of the quota among exporting countries practised in Rumania, Lithuania, and Poland, the system at first in force in *Latvia* seems reasonably just. After generally fixing a total quota for the whole year, the authorities of this country would divide the total amount among the exporting countries according to their shipments in the year 1930.[5] Yet even in Latvia the original percentage distribution of the total quota among the different exporting countries soon deteriorated into a system

[1] Within the framework of the Rumanian system introduced in 1934, a large number of quantitative restrictions were not applied to particular countries, see press release of the "*Ausgleichsstelle der Deutsch—Rumänischen Handelskammern*", early 1935.

[2] See p. 46, footnote 5.

[3] Early in the year 1936, Poland introduced exchange control and imports were regulated by a double system of quotas and exchange measures.

[4] *Legislativer Informationsdienst*, 8th May, 1933.

[5] See pp. 69 ff. for a discussion of the problems connected with thus basing the import share on the shipments of a particular year.

of arbitrary discrimination in connection with foreign commercial policy.

The reasons which prevented the authorities in a large number of countries from beginning quantitative restrictions by the operation of global quotas were all connected in some way or other with external commercial policy. In the first place the exclusion from import restrictions of the produce of countries considered less important as a source of supply than as a market for exports induced Switzerland, for example, to specify in most cases of import control the exporting countries affected.

Secondly, the fact that a global quota tends to discriminate against distant sources of supply and could therefore run contrary to the spirit of most favoured nation treatment led to a division of the total quota which was deemed more equitable than that coming from the " free " play of economic forces (Holland).

The third reason for resorting to a regulation of the proportion to be imported from different countries may be called a positive one in comparison to the two just mentioned. For while in the cases of Switzerland and Holland fear of reprisals largely motivated their courses of action, the desire to take reprisals themselves appears to have been behind division among countries in the Balkans and the Baltic.

In what is relatively the most important country of quantitative import restriction—*France*—the experience with the operation of the global quota led to the new system of allotting definite proportions of the total importable quantity to different countries. Although the desire to devise a system which would facilitate a *de facto* adherence to the principle of equal treatment of all exporting countries may have played some part in the introduction of the new system, the continued importation in excess of global quotas was probably a more important reason for discontinuing this form of quantitative control to a large extent. The supervision of imports by the customs authorities is facilitated if not only the total amount, but also the quantities which may be imported from particular countries, are fixed. At the same time, the possibility of negotiating favourable terms for France—though certainly not an avowed principle during the initial stages of the quota regime—was a further reason for introducing quotas for particular countries to an increasing extent.

If division of the total quota among exporting countries is to avoid the injustices which arise under conditions of the

global quota from the various degrees of geographic proximity, some principle of division has to be found on the basis of which a closer adherence to the spirit of most favoured nation treatment may be achieved. Generally this principle consisted of allotting import shares in proportion to the shipments from individual countries during some preceding period.

In France, for example, all countries which during such a period supplied more than 10 per cent of the total imports of a particular commodity obtained a share in the total imports which corresponded to their exports during that period.[1] In *Holland* a similar system was used at first,[2] while *Belgium* and *Switzerland*, though specifying the source of imports on individual licences, have generally refrained from publishing any principles of division.[3]

The system of division by countries on the basis of a preceding period, though diminishing to some extent the disadvantages of the global quota, created a set of new administrative and economic problems. In some cases, the authorities probably did not expect that such new problems would arise. In other cases they seem to have considered the new problems of smaller importance than the disadvantages of the global quota.

To what extent may division by countries on the basis of imports during a preceding period be regarded as more just than free competition among the various supplies? The demand for most commodities varies from year to year. Costs and prices in various production areas are subject to change. For these reasons the choice of a particular basis period tends to favour some countries while discriminating against others.

Thus, for example, French quotas were relatively favourable for many Belgian products in so far as the reductions were calculated on the basis of 1930–1, a time when Belgian exports of many of the commodities concerned were particularly large.[4] The restrictions of Belgium, in turn, tended to favour France and England while operating to the relative disadvantage of Germany.

[1] Countries which had exported a quantity below 10 per cent of such total imports were lumped together and allotted a total quota.

[2] Before the year 1933, when Holland introduced global quotas to an increasing extent, the shares to be allotted to different countries were generally calculated for three months periods on the basis of average imports during corresponding months of 1928–29–30.

[3] The *Latvian* system corresponded to that of France and the Netherlands.

[4] See an informative article on Franco-Belgian trade relations under the quota-regime in *Le Temps*, 6th April, 1935.

The Dutch quota for meat was at first very unfavourable for Danish exports to Holland. The fact that, in 1928, the proportion of Danish meat coming into the country was very small, pulled down the average of the period 1928, 1929, and 1930. When in the spring of 1932 the quota was prolonged on the basis of the average of 1929, 1930, 1931, the relative position of Denmark was improved. The same restriction operated in the opposite direction for the Argentine; while the actual quantity of meat which Denmark could ship into Holland during a period in 1932 had increased from 566 tons (in 1931) to 1,205 tons, the absolute quantity from the Argentine fell from 1,369 tons to 1,174 tons.

The significance of the choice of the basis period for the incidence of import restrictions may be illustrated by a further example arising out of French experience. In the case of many agricultural products, the quarterly import reduction was calculated in such a way that a 40 per cent reduction applied to the imports during the period 1927–1931, while those of 1930–1 were subjected to a 60 per cent reduction. The final average amount which could be imported was thus relatively favourable for France's old suppliers of the commodities in question (Holland and Denmark), while involving a discrimination against Central and Eastern Europe. In this way the old sources of supply were allotted a greater share of present imports than would have corresponded to the tendency of shipments from Southern and Eastern Europe to increase during the last few years preceding the introduction of French import restrictions.

Even without the likelihood that changes in demand and in the main sources of supply will constantly occur, there remains another technical difficulty in the way of a just distribution of imports among the various sources of supply. This difficulty consists of the discrepancies which usually exist between import and export statistics for the same commodities. In the statistics of the importing country certain quantities may appear as exports from a given country, while actually the commodities concerned have only passed this country as transit goods. If then, in connection with certificates of origin, the quantities which the original exporter may ship are heavily restricted, a restriction has been established which hits the original source of supply while giving an undue advantage to the transit country. The difficulties of negotiation are increased if the original exporting country shows, in the statistics, only the exports to their final destination while the importing country (as is done, for

example, in France) calls that country the exporter through which the goods have passed immediately before crossing the frontier.[1]

Apart from such general changes and tendencies in the flow of imports, sudden variations in the production of, or the demand for, restricted commodities may render the maintenance of fixed proportions unjust from the point of view of the exporting countries. Abnormal events may have occurred during the time chosen as the basic period so that in the case of particular countries present export possibilities have no longer any relation to those prevailing before. The case of a country has been cited which, during such a basis year, saw its exports of live animals abnormally reduced as a result of sanitary precautions on the part of the importing country.[2] In the meantime the disease had disappeared, yet the country's present share of total imports of live animals was still determined by the abnormally small exports during the basic year. Clearly in all such cases there is no just principle of division.

So much for the advantage, from the point of view of international justice, of division by countries over the global quota. All that remains is the operation of a principle on the basis of which quantitative import control *may* be exercised in a just way. There is no certainty that such will be the case. An exporting country may benefit from, or lose by, the choice of a particular year as a basis for subsequent calculations. In such cases the particular events or general conditions of the past were the determining factors. Particular events or changes in general conditions which occur in the present are equally liable to effect the appropriateness of a given percentage

[1] See, for example, the case cited by M. Broqua, Directeur de la Chambre Syndicale des Marchands de Bestiaux en France (mentioned by Angelini, op. cit., p. 135). By virtue of a Franco-Italian treaty of 1928–9, live animals shipped by Italy enjoyed particularly favourable tariff treatment. For this reason, Danubian countries and at times even Denmark, found it profitable to let their exports pass through Italy. When quotas were established the Italian quota was unusually large. Certificates of origin made it impossible for the other sources of supply to take advantage of this large quota which justly or unjustly had in part been calculated on the basis of their exports.—Very marked discrepancies existed between the foreign trade statistics of *Rumania* and the countries with whom she was in the habit of trading. The Rumanian distinction between countries with a favourable and those with an unfavourable balance of trade were therefore bound to be very arbitrary. Rumanian industry was for this reason justly, though unsuccessfully, opposed to this principle of division.

[2] See Lautman, op. cit., p. 46.

distribution of imports among the various suppliers. In these cases, the effect of changes no longer constitutes a question of international ethics, but is primarily an economic problem.

The same general considerations which were germane to the problem of justice in the distribution of import shares among different exporting countries apply here: conditions of production and of demand and therefore relative costs and prices in different countries are subject to change through time. What seemed an appropriate division of the total quota last month may be quite a useless distribution this month. The effects are obvious in cases of sudden changes in the export possibilities of a particular country. One example will suffice to illustrate the point.

When some time during the year 1932 large floods in certain lettuce producing regions of France destroyed a considerable part of the crop, the Swiss holders of quota licences for French lettuce found that their import permissions for France were much too large while the licences for other sources of supply of the commodity in question were insufficient.[1] Changes in the percentage distribution between countries, or even the transfer of a licence from one source of supply to another, involve delay. By the time official approval has been communicated to the importer, conditions of production abroad or demand at home may no longer call for the originally desirable change. Moreover, the authorities are not always free to change the existing percentage distribution if the latter is the result of open or " conversational " negotiations.

Our example illustrates the effects of the most obvious sort of case. Of greater importance, however, than such sudden changes in export capacity is the infinite number of comparatively small external fluctuations in prices and of variations in quality. The larger proportion of such changes does not escape the notice of importers. Their total profits are mainly determined by the size of the turnover. Under reasonably perfect competition it generally pays to pass a lower cost price on to the consumer. Relative proportions of total imports coming from different countries therefore tend to change constantly. Now under a regime of definitely fixed quotas such changes can only be in

[1] Cf. Proix, *La Réforme Economique*, 1st January, 1932. The author draws attention to the possibility that the qualities of particular products offered by different countries may change and that as a result of this importers may be forced to purchase in markets which they would otherwise ignore. His statement is based on the experience with the French sugar-quota.

one direction, i.e. a particular country's quota may temporarily not be utilized. It is not possible for importers to take full advantage of relative price changes in different countries. To what extent consumers as a whole would benefit from the ability of individual importers to buy (within the total quota) in the cheapest market is a question which will be answered at a later stage.[1] That it is possible for individual importers to reap benefits from being able always to buy in the cheapest market is shown by the opposition on the part of trading interests to division of the total quota by exporting countries.

Leaving aside for the moment whether it is to the advantage of consumers if the importers are given the possibility of purchasing the fixed quota from whatever sources they wish, let us inquire briefly into the views held on this subject by the importers themselves, and the effects of their attitude on the policy of different countries.

In *Belgium* the agitation on the part of importers against fixed quotas by countries was successful in persuading the government to abolish division by countries in a large number of cases.[2] In some of these the change meant a return to the global quota. The opposition against division by countries was particularly strong in *Holland*. While Dutch industry had formed a committee " for the purpose of speeding up the application of the quota law ",[3] importers and other trading interests had founded an organization " for the purpose of transmitting complaints in quota matters ". This body repeatedly drew attention to drawbacks of division by countries from the point of view of the importers.[4] The authorities, for the reasons given,[5] were at first not prepared to comply with the wishes of the importers. Only at the end of 1933 were global quotas reintroduced to some extent.

In *France*, the opposition against the existing division among exporting countries came less from the importers [6] than from internal industry. Dissatisfaction with the system arose from the generality of its application. Certain industrial interests, at their head the " *Association nationale d'expansion économique* ",

[1] See Chapter XI.
[2] Cf. Lautman, op. cit., p. 68.
[3] See Part I, Chapter II, p. 24.
[4] See, for example, *Nieuwe Rotterdamsche Courant*, 17th December, 1932.
[5] See pp. 85–6.
[6] See, however, Report of M. Maitre, Vice-president of the Chambre Syndicale du Products Alimentaires, cited by Angelini, op. cit., p. 134.

demanded discrimination against countries which had changed their commercial policy towards France since the time which had been chosen as a basis for percentage calculations.[1] It was through this agitation that the way for the subsequent "compensatory" system of dividing the quota among exporting countries was prepared.[2]

Apart from the administrative difficulties and the economic disadvantages from the point of view of the importers, percentage division of the total quota among exporting countries gives rise to certain further problems which are also of an economic nature. Since the present section is primarily concerned with the technique of quantitative control, it is convenient to postpone discussion of these problems until a theoretical analysis of the effects of the various measures has been made. Suffice to say that the assurance of a definite quantity of exportable commodities may easily give rise to concerted action on the part of exporters and thus lead to a monopolistic position to the disadvantage of the importing country.

This possibility has been realised, in practice, by certain exporting countries,[3] and was an additional reason why division by countries has been discontinued at times, and the global quota introduced. In general it may be said that countries tended to change the technique of import control with whatever method they began, for it always appears to have been easier to realise the disadvantages of the *existing* method than those of the measures introduced to replace it. France which began with global quotas gradually extended the system of division among countries, while Holland and Belgium returned to the global quota after the disadvantages of division by countries had been recognized.

The second important measure introduced in almost all countries with quantitative import control was the distribution of licences among importers. In most countries the total amounts to be imported or the distribution of such amounts among the most important exporting countries were definitely fixed and usually published. In some countries, however, the total importable quantities were not always known to the public. Here, the control was exercised by the authorities or delegated bodies through the distribution of licences to individual importers according to a flexible plan, as in the cases of Switzerland and

[1] See, for example, *La Journée Industrielle*, 3rd–4th September, 1933.
[2] See pp. 241–2, Chapter XVI.
[3] See Chapters IX and XII.

Belgium.[1] Of the less important countries of Eastern Europe, *Lithuania* also controlled imports entirely by licences for a long time.

Both fixed quotas (generally divided among importers through licences) and a system of special import permissions existed side by side in a large number of cases. Import goods were divided into different classes, some subject to fixed quota restrictions and others to special permissions. The most important example of such division is *Italy*.[2] In general the importation of raw materials and half-finished goods is subject to a special licence while that of finished articles and a number of food products [3] is quantitatively controlled. The authorities justly believed that in the case of raw materials and semi-manufactures greater flexibility is desirable in view of the shifting demands of internal production.

Greece, though generally controlling imports by global quotas, also resorted to the pure licence system in the case of certain products. According to the system in force in 1935, the category of goods whose importation was dependent on special permissions (List D) included wheat, potatoes, cotton, silk, and all kinds of new machinery. The inclusion of machinery in this class is particularly interesting. The authorities apparently wanted control over the direction and extent of the development of new domestic industries founded as a result of the government's restrictive measures. This intention was also apparent in *Estonia*, where the importation of machines was made subject to licence without other import control.[4] In *Turkey* goods were at first divided into a number of classes, each treated differently within the system of import control. As in the other cases of differentiated control, a number of raw materials could only be imported on the basis of a licence.

To some extent a system of licences may technically replace a regime of fixed quotas. In the cases of quantitative import control where the authorities refrained from fixing and publishing the absolute amounts to be imported, the distribution of licences is a necessity unless import trade is to become entirely speculative.

[1] Single decrees subject particular commodities to a licensing system without necessarily fixing a time limit.

[2] See *supra*, p. 44.

[3] Thus, for example, butter, fresh fish, coffee, cocoa, tinned tomatoes, wines and oils could only be imported if special permission was granted.

[4] The *Revalsche Zeitung*, 5th October, 1935, reported that the government was not in favour of too much development in the textile industry, and that the importation of new textile machinery was therefore restricted.

ıportable quantities are fixed and known, distribution of ta among individual importers by means of licences considered an improvement on free importation within a for a number of reasons. The system has its faults, :iously administered is likely to assist in the diminution isadvantages inherent in a *partially* controlled system.[1] ınical efficacy of quantitative control is ensured to a eater extent since the distribution of import permits s the task of the control authorities. It is easier to dividual documents than to control the rate of total of a particular commodity from particular sources. onsibility now lies with the importer. Leniency on the the authorities in cases of purchase in excess of the no longer the only fair policy; the authorities cannot :d for losses to importers as a result of orders in excess uantities stipulated on the licences. Favouritism and ation are eliminated and the chances that the control nade ineffective by imports in excess of the quota are ıbly reduced.

ese reasons, all countries which had resorted to quantitaort regulation supplemented the existing measures by systems at one stage or another. The simplest form of tas subsequently distributed among individual importers existed at some time in France, Holland, Italy, ., Greece, Latvia and Turkey.

rst question confronting a government which has :o control imports by means of licences is that of the on of the distributing body. Commercial departments n offices or foreign departments of commercial or ministries rarely have at their disposal a staff adequate vith the innumerable requests of importers for permits ur in after a quota has been established. The main he work tends to become a matter of routine. The of special cases (for the authorization of which any system of control must provide) necessitates the setting w executive or consultant bodies. The relevant state nts in almost all countries have resorted to outside greater or smaller degree. And this is not only true :ases where licences are distributed without the basis

licences to individual importers will prevent the rush to the peculiation, losses, disorganization) was emphasized by the ster of Trade and Commerce, Herr Stucki. See report on a pressgiven early in 1932 in *St. Galler Tageblatt*, No. 52, 1st February,

of a fixed quota, but also for those where the main work of the allotting body consisted of checking the figures and documents supplied by the importers.

'he general practice has been to seek first the advice of professional bodies in the choice of the commodities to be restricted and then to retain such organizations as distributing agencies for the licences. Once the principles of allotment had been laid down, these bodies were entrusted with the administration of control, the government retaining however the final authority. The initial reason for vesting either existing or *ad hoc* organizations with the administration of import control was the desire to relieve the relevant government department of much of the technical detail and particularly of the obligation of making innumerable decisions liable to call forth charges of favouritism. The professional bodies thus created or vested with new powers have also served other purposes according to the political philosophy or commercial objectives of the countries in question.

In *Italy*, for example, much was made of the additional binding force in industry to which the obligation to organize themselves for yet another purpose gave rise.[1] The *Swiss* authorities justly recognized the increased bargaining power which a strong importers' organization may at times provide in connection with commercial negotiations with foreign suppliers.[2] In *France* the enthusiasm for the appearance of "planning" given by the organization of traders and producers in particular fields for the purpose of import control remained rather academic[3]; the relative reduction of governmental duties was considered the main advantage.

The powers of the various professional organizations or committees with respect to the determination of import policy or more particularly the distribution of individual import licences varies with the countries concerned and has undergone many changes in each particular country. . In general the influence of such bodies has been rather more important in such countries as *France* and *Greece* and rather less important in *Switzerland*, *Holland*, and in some of the Baltic countries. In *Lithuania*

[1] See, for example, Francesco Sacca, "Politica commerciale co-operativa," *Economia*, 1935, p. 556 et seq. This author also welcomes the decentralization of economic control resulting from vesting the so-called *giunte corparative* with controlling powers.

[2] See *infra*, p. 98.

[3] Cf. Piettre, op. cit.

and *Latvia* [1] the government seems to have relied mostly on its own facilities while in *Estonia* the state has generally delegated its very complete powers to commercial organizations. In *Rumania* the influence and duties of the Chambers of Commerce has varied as frequently as the system of import control itself.

In *France* (and for some time in *Rumania*) so-called Inter-professional Committees were charged with the distribution of licences.[2] Their name arises from the combined representation of traders and producers. Their powers are consultative, their duties verification and recommendation of importers' requests.[3] The final power of granting the licence rests with a government commission.[4] During the later stages of the French quota regime other existing organizations, above all the co-operatives and other types of concerted buying and selling agencies, were authorized to distribute total permits in the way they saw fit.[5]

In *Greece*, the Chambers of Commerce were charged with the distribution of licences after the total quota for a particular product determined by an import board had been divided among the different commercial regions whose shares were determined by the size and activity of their population.[6] The Chamber of Commerce of Athens,[7] which had been largely responsible for the introduction of the Greek system of quantitative import control continued to observe its development closely and to offer criticisms and suggestions whenever the measures of the

[1] This distinction is made on the basis of information which has become available to the author partly in published form and partly through conversations with government officials and private individuals in some of the countries concerned. No claim is made for completeness of information in this respect, nor for the absolute validity of the distinction for this reason.

[2] See *Journal Officiel*, 20th November, 1931, for the first series of decrees making the importation of certain agricultural products subject to licences.

[3] In the case of agricultural products this commission is made up of a *Directeur-Adjoint* of Agriculture (Chairman), Representatives of the Ministries of Agriculture and of Commerce, the head of the Customs Department, the Inter-professional Committee, and of one each for producers and traders.

[4] The composition of the Interprofessional Committee charged with the delivery of licences for the importation of coal may serve as an example of the care which was taken to have all relevant interests represented: *Le conseiller d'Etat, directeur des Mines*, two members of Parliament, two representatives of the coal industry (employers), two miners, one from the Chamber of Commerce, one from the Maritime Chamber of Commerce, three from heavy industry, one each from the Ministries of the Interior, Commerce and Industry, Labour, Foreign Affairs, and Public Works, and one from the importers.

[5] Cf. Piettre, op. cit., p. 83.

[6] This system was introduced in May, 1932.

[7] See Part I, Chapter III.

government met with opposition from trading and industrial interests.

In connection with the introduction of every new quota limitation, the *Swiss* authorities were obliged to consult a committee consisting of representatives of the professional interests (employers and employees) and of "consumers". The distribution of licences, however, was left largely in the hands of the government.[1] In order to achieve its various aims in foreign commercial policy the government sought to make the system of licensing as flexible as possible. The degree of detailed government control is probably greater in the Swiss import regime than in any other important system of foreign trade regulation. Only in the case of certain staple products,[2] where the choice of source and extent of imports could be used effectively in foreign trade negotiations, was the right to distribute licences transferred to a private organization.

The constant opposition and criticism on the part of trading interests in *Holland* would lead one to believe that the influence and rights of other than government bodies on the distribution of licences was very small. Even as late as 1935 the Press reported many cases of inefficiency on the part of the governmental agency in charge of distributing licences to importers. A textile firm is said to have applied for a permission to import stockings, whereupon it was presented with a licence to import bathtubs. Another example is that of an importer who wished to import a certain commodity worth 1,500 fl. but was granted a licence enabling him to import up to the value of 15,000,000 fl.[3]

It is, of course, easy to discredit governmental control by such examples and to generalize unjustly from them. There can, however, be no doubt that the superimposition of control of certain parts of the system on an otherwise free economy is likely to lead to somewhat confused conditions, particularly if the regulations are regarded as emergency measures and if for this reason the authorities are not in a position to avail themselves of a highly trained personnel. Under conditions of a combination of control with a generally free system it is essential that the authorities make use of existing professional

[1] See report of the Swiss Wholesale Traders on matters of quota policy, *St. Galler Tageblatt*, 8th April, 1933, for complaints on the part of importers and traders about the government's practice not to consult their opinions sufficiently.

[2] For example, in the case of coal and mineral oils.

[3] See *Eildienst*, 22nd February, 1935.

organizations or that they constitute bodies whose individual members are drawn from groups experienced in the trade in particular commodities.

The other countries where the powers of private organizations seem to have been comparatively small with respect to the administration of foreign trade regulation were *Lithuania* and *Latvia*. In the German Press (possibly influenced by a political bias against Lithuania), as early as January, 1933, the administration of import licences in Lithuania has been called particularly bureaucratic.[1] In Latvia, the temporary decision to reintroduce tariffs in place of quotas was said to have resulted from the government's inability to cope with the intricacies of its own quota system.[2]

Once a decision has been made as to the agency which is to administer the detail of import control the principles according to which individual licences are to be granted must be laid down, and it is in connection with these principles that most of the problems of the licensing system arise. Licences are either distributed on the basis of fixed quotas or in accordance with a flexible plan. A discussion of definite problems is only possible in the case of the first method. In order to appraise the particular advantages and disadvantages of the second method, familiarity with individual plans and policies would be necessary. Here the impossibility of judging each case on its merits leaves no alternative but to employ certain general arguments applying to all types of import restrictions. Widespread use in practice and the opportunity of illustrating some of the problems of import regulation by definite examples renders a technical discussion of the first form of licencing more fruitful than a consideration of the rather evasive questions connected with flexible plans.

The principles of the distribution of import licences do not vary very much with the countries of application. The problem of division of the total import quota among individual importers is not very different from that of division by exporting countries. The two main pre-requisites of an adequate system of distribution of licences are equal treatment of all importers of a particular commodity and flexibility of application. If the first condition is fulfilled, time-absorbing individual discussions between importers and authorities and the complaints arising out of charges of favouritism may be reduced to a minimum. The

[1] See *Industrie und Handel*, 18th January, 1933.
[2] See *Industrie und Handel*, 17th March, 1932.

second condition implies consideration of seasonal fluctuations in the trade of particular commodities, possibility of changes of source or time of supply and provision for the demands of new firms.

The question of equal treatment of all importers of a particular commodity has generally been solved by taking, as a basis for possible percentage reductions, individual importers' transactions during a stipulated basis period. Such basis periods, either a year or the average of a number of years, vary with the commodities restricted. The reasons for the choice of a particular past period as basis for present calculations are not always clear. There are, however, certain general considerations which may be said to have had some influence on the determination of basis periods. If for example present imports can be reduced without actually stipulating a reduction, the authorities may regard it as more convenient to use such a method. For, at times, the quantity imported during a particular period corresponds to the desired reduction of present imports, and rather than stipulate any percentage reduction, the authorities allow the total quantity of imports of the period in question. Thus, for example, the importers of certain textile goods in *Switzerland* received licences corresponding to the full quantity of their imports in 1927, i.e. four years previous to the application of import control.

On the other hand the authorities are aware of the fact that not only demands but also the personal composition of the import trade have changed. For this reason it will generally be found convenient to apply the reductions, if any, to a period lying as closely to the present as possible. If, however, some time has passed between the introduction of a global quota and the establishment of a regime of licences, it is possible that the authorities will revert to a period before the beginning of control in order to exclude the purely speculative import trade which had been attracted by the new profit chances.

Although these and other considerations must have had some influence on the choice of basis periods, chance has undoubtedly played a considerable part in what was considered the most reasonable method. In *Holland*, for example, the percentage reductions were in the case of beef and veal and a number of manufactured products applied to quarterly averages of 1928, 1929, and 1930 and onward as time moved on, while *France* took an average of a greater number of years. In *Greece* importers were called upon to report their imports of 1929, 1930, and 1931

(as a basis for licences to be delivered for the period of 15th May to 15th November, 1932), while *Latvia* applied in many cases percentage reductions to the reported imports of 1930 only. Whatever period may be chosen as a basis for subsequent calculations, the problems arising from generally applicable percentage reductions are the same in each case. For this reason it appears to be more fruitful to proceed now with the discussion of these problems than to state the actual provisions in greater detail.

The general difficulty in using a past period as a basis for present calculation is the same as that encountered in connection with division by country. What was true for a comparatively small number of supplying areas is *a fortiori* true for the generally large number of individual importing houses. Fixed percentage reductions are applied to transactions whose relative importance changes through time. While in the case of exporting countries the relative facilities of supply (quite apart from changes in demand) are subject to continual fluctuations, the relative fortunes of a great number of import businesses vary to an even greater extent. If, then, only those have the right to import a certain quantity who have done so during some more or less remote period in the past,[1] discrimination against developing or newly-found firms is obvious. This form of discrimination (arising paradoxically from the very desire to avoid other forms of discrimination) resulted in the most vehement opposition against the licensing system. In spite of the attempts made from time to time to remedy such injustices towards new firms,[2] licensing systems had the general effect of destroying the competition between existing firms and particularly between old and new firms.

Opposition to this way of distributing the total quota among individual importers therefore came less from the established houses than from the spokesmen of those intending to found new or to expand existing enterprises. In certain isolated cases the attitude of "old houses" has indeed been favourable to a system of licences.[3] It would thus not be safe to judge

[1] The import quotas allotted to the Swiss "Cheese-Union" were based on 1913–14 (!); mentioned in a Memorandum prepared by G. E. Duttweiler for consideration of the government, April–May, 1936, p. 25.

[2] See *infra*, p. 104 ff.

[3] The impression created in this respect by rare statements in the press (see, for example, *Nieuwe Rotterdamsche Courant*, 17th December, 1932: "Door dize eisch wordt de regelmatige handel gehandhaafd en het onstaan van 'gelegenheids handel' belet") was confirmed by private conversations in a number of countries.

the general attitude of the import trade by the innumerable published criticisms hurled against licencing systems. Private interests are generally much more cautious concerning their favourable than their unfavourable pronouncements on the government policies affecting them.

A good example of the inadequacy of basing present calculations on the imports during a past period is the difficulties encountered by co-operative societies in a number of countries in obtaining sufficient licences to satisfy the growing demands made upon them. Particularly in Switzerland where the *Konsumvereine* had been able to extend operations considerably during the last few years, the maintenance of the year 1931 as a basis for imports in subsequent years has resulted in a discrimination against consumers' co-operatives.[1] What is true for the co-operatives is also true, though genera[redacted] [redacted]aps to a lesser extent, for private importers whose i[redacted] businesses show an upward trend.

Apart from such general fluctuations in [redacted]e fortunes of particular firms, accidental increases or decreases of imports during the basis year are also liable to benefit or harm unjustly the trade of individual firms. Wholesale firms which purchase both abroad and at home may have bought during the basis year chosen a greater proportion at home than had been their practice before. But the conditions which brought about such a change in the distribution of their purchases may no longer obtain a few years later. Yet the quantities which they are now entitled to import from abroad correspond to the particular year when they favoured the home market. The effect of such cases becoming known will tend to be that similar firms whose products are not yet restricted will be further discouraged from buying in the home market in order to ensure themselves against a small quota when the importation of their own articles is restricted.[2]

The fixing of a basis year, during which all those now requesting import licences must have been in business excludes of course

[1] See for example, O. Zellweger's article in *Schweiz. Konsum-Verein*, 23rd November, 1935, pp. 585–587. The author draws attention to this discrimination in the following words: "Das Festhalten an den Importzahlen pro 1931 bedeutet aber auch für aufstrebende Organisationen wie der V.S.K. (Society of Swiss Consumers' Co-operatives) eine starke Einschränkung, weshalb der Verband sich je und je dafür einsetzen muss, dass den Genossenschaften ermöglicht wird, ihren Bedarf zu decken . . ."

[2] This kind of change in relative demand on account of new risks may bring about a further though minor diversion from the most economical distribution of purchases.

the establishment of new firms unless special provisions are made for them. In all cases where such provisions have been made the onus of proof lies with the new establishment, and therefore it is difficult for new firms to enter the trade. This is particularly true because the very high profits which could at times be made as a result of quantitative import restrictions have tended to attract newcomers into the field. But the just exclusion of profiteers is achieved at the cost of preventing *bona fide* firms from being founded.

The difficulties in the way of expansion of existing firms or of the establishment of new enterprises, other things remaining equal, does not hurt the consumer immediately. Reservation of licences to established houses only means a reservation of the possible special profits to them. Flexibility in the granting of licences would t[redacted]bring about a different distribution of such extra profi[redacted]ould not reduce the prices of import articles to consum[redacted] the same time, the existence of enterprising new firms newly-trained staffs, may well benefit the consumer once the quota system is no longer in operation. But under the quota regime increased efficiency on the part of new firms merely increases *their* profits. Price reductions are unlikely since increases in sales are limited by the licences granted. Furthermore, if the quota is fixed, a temporarily more liberal licence to one importer means a smaller licence to another. If the demand has remained the same, and the quantity of importable commodities has not risen, the higher average price will be maintained.[1]

The opposition on the part of those desirous of expanding or founding new enterprises[2] has induced the authorities in many countries to make provisions for the changing demands of individual firms. This has been done in four different ways :—

(1) By issuing licences not only on the basis of imports during a particular period but by taking into consideration the commercial development of individual firms.

(2) By reserving part of the quota for new firms.

(3) By making the right to import dependent on domestic purchases of the same or similar commodity.

[1] See Chapter XI.

[2] See, for example, Proix, *Rapport Général du Congrès du Commerce des Produits Contingentés*, for *France*. *Nationalzeitung*, No. 159, 26th April, 1934, and *Neue Züricher Zeitung*, 13th July, 1934, for *Switzerland*. Francesco Sacca, "Sulla nostra politica commerciale," *Economia*, April, 1935, for *Italy*.

(4) By increasing the facilities of bilateral compensation transactions.

Some of these methods are, of course, particularly important in countries with fixed quota systems, i.e. in cases where an existing flexible plan does not take care of the fluctuations of individual demands. In addition to such improvements further measures had to be introduced in order to diminish part of the inconveniences arising from fixed basis periods.

The first method mentioned above was designed to take account of the changing fortunes of existing firms rather than to furnish a means of satisfying the demands of new enterprises. It was an attempt to eliminate the injustices which may arise if the quantity of imports during a particular year is taken as the sole basis for subsequent import permits.

The most elaborate form of this method is found in *Greece*.[1] Although the definition of the term importer was quite strict, licences were to be distributed according to (*a*) capital value of the firm, (*b*) amount of taxes paid, (*c*) rent payable on the firm's premises, (*d*) size of staff, or (*e*) number of proprietors, and only lastly (*f*) imports in former years. In Greece, where the Chamber of Commerce has a large voice in quota policy, an attempt was also made to eliminate the further injustice of discriminating against old firms whose imports had for some reason or other been particularly small during the basis period, and towards the end of the year 1933 a batch of regulations came out to solve some of these problems.[2] Among other relaxations it was stipulated that firms which had been in business for more than fifteen years but were not in the possession of an import booklet,[3] because during 1929–1931 they had not carried out any import transactions, were to be issued licences partly on the basis of their imports in 1924–9. Furthermore, importers of more than *one* commodity were permitted to increase their purchases of any one of them on the renunciation of all or part of the licences granted for other commodities.[4]

For our purposes it does not matter whether all these considerations and provisions have played an important part in practice.

[1] See *Eildienst*, 6th December, 1934.

[2] See *Industrie und Handel*, 21st November, 1933.

[3] Into these booklets the quantities granted were put, and the actual imports subtracted during the quota period.

[4] *Industrie und Handel*, 4th August, 1932. This measure though not actually providing for equal "natural" substitutions is obviously part of a system introduced to safeguard the currency rather than particular industries.

The methods described offer, however, some useful examples of how a number of the shortcomings of the simple basis year method may be eliminated.

The method of not distributing the entire fixed quota but of reserving part of it has been employed, for example, in *France*. The administrative details have changed from time to time. At first reservations of part of the quota for new demands only applied to particular products.[1] Later on, the system attained more generality. Thus in 1934 the Ministry of Commerce ascertained whether all the requests for licences for a subsequent quarterly period came from firms which had imported in 1932. If this was the case the distributing agencies would retain only 5 per cent of the total quota in order to be able to satisfy (still within the fixed quota) small additional demands. If there were also requests from firms established after 1932, 15 per cent of the total quota would be reserved in order to cover their demands.[2]

In addition other methods to diminish difficulties connected with a fixed basis year *Switzerland* also resorted to so-called quota reserves from which licences were granted to new or expanding firms. The government realized that as time went on and the basis year receded farther and farther into the past the existing principle of distribution became increasingly inappropriate.[3] It seems that the situation was remedied because the government particularly desired to prevent the trade in licences.[4] From year to year the reserves were increased and the demands of new firms satisfied therefrom.[5]

Sometimes such additional licences were only granted on the condition that the importer would satisfy part of his total demand for a particular commodity at home. This system was and is extensively used in *Switzerland*. Its introduction was

[1] See, for example, the case of the coffee quota mentioned by Haight, op. cit., p. 27.

[2] Release of the Ministry of Commerce, published in *Eildienst*, 16th June, 1934.

[3] See, for example, Dr. J. Hotz, loc. cit., p. 20 : " Je weiter wir uns . . . vom Stichjahr entfernen, um so weniger entsprechen dessen Verhaltnisse der heutigen Realität und um so mehr besteht die Gefahr, dass ein Teil der Einfuhr nur noch formell uber die kontingentberechtigten Firmen geht, in Wirklichkeit aber eine Anzahl unter ihnen ihre Bewilligungen verfallen lässt, oder an andere—aufstrebende—Firmen abtritt oder sogar an diese verkauft."

[4] The effects of this illegal traffic are dealt with in Chapter XV.

[5] See *Swiss* Government's *Botschaft*, official document 3226 (published in *Bundesblatt*, 18th March, 1935, vol. i, p. 526).

urged in *Holland* [1] but never applied to the same extent as in Switzerland. New firms entering the trade in a particular commodity and only able to buy and sell the domestic product claimed that by virtue of this involuntary patriotism they deserved the right to import (at cheaper prices) and thus improve their position.

As long as this system does not increase the total quantity supplied at home, the margin between the ruling domestic price and the price at which they were able to buy abroad represents, of course, a clear profit to the importers. Unless the total quantity offered on the home market is increased to such an extent that the domestic price (excluding all transport costs) is equal to the world price, the firms operating on this basis are better off than if they only traded in the domestic article. But such an equalization of prices is prevented by the quota system. Importers therefore are always in favour of this method if there is no other way open to them to obtain licences for importation. The system is usually operated in such a way that those in possession of a licence may import a certain percentage of the total granted only on condition that they purchase a certain quantity of domestic goods. For example in the case of china ware, Swiss importers were allowed to use their licence to the extent of 50 per cent for "free" imports; the rest of the quantity stipulated on the licence they had to "earn" by purchasing equal valued quantities of Swiss china. The ratios between the value of the foreign article and the domestic article which had to be bought simultaneously varied continually according to the degree of protection desired and the ruling objects of foreign commercial policy.[2]

The views held by Swiss importers and wholesalers on the so-called "*Leistungssystem*" differ according to their particular branch of business. The division of labour in this field has often attained such a high degree that specialized firms do not find it worth their while to incur the additional costs of organization which a partial change to the domestic market entails.[3] Others who found such a change easy, for example in the case of more or less standardized food products, have therefore pronounced

[1] See, for example, *Nieuwe Rotterdamsche Courant*, 20th October, 1933.

[2] In 1935, the ratio was 1 : 1 in the case of china ware, in 1936 1 : 25 (home product) : 1 (foreign product). For a time part of the licence to import foreign shoes had to be "earned" by buying domestic zip-fasteners.

[3] Cf. M. Meyer at a conference held by the Association of Zürich Merchants (Verband Züricher Handelsfirmen) on 4th February, 1936; see *Neue Züricher Zeitung*, 7th February, 1936.

in favour of the system and pleaded for its extension.[1] At times it is difficult to find in the domestic market just the type of goods demanded by the customers of a particular firm and which satisfies at the same time the official regulations. The Swiss Minister of Commerce, Herr Stucki himself, told a story in 1932, ridiculing the bureaucratic methods which at times are apt to make the operation of the "*Leistungssystem*" more difficult than useful. A family wished to obtain an import permit for a tombstone from Italy. The licence was given—but only on the condition that another tombstone was ordered in Switzerland ! [2]

The fourth method of alleviating the inconveniences of fixed quota regulations was the elaboration of a system of bilateral compensation. The importance of this method is considerable in countries which introduced quotas for the purpose of safeguarding the currency, for in such cases the intention is not to reduce the imports in order to maintain the prices of particular products, but to reduce the demand for foreign means of payment. If, therefore, it is possible to increase imports without increasing at the same time the demand for foreign exchange, the authorities will see no objection to increased quantities of goods entering the country.

In *Greece* and in *Bulgaria* the method of allowing imports in excess of existing quotas, by compensation through simultaneous exports of Greek and Bulgarian goods, is used extensively. Both individual compensation transactions and trade via state clearing arrangements (with countries whose clearing balances are negative *vis-à-vis* Greece) have, by giving importers more freedom, made the system more flexible. On the other hand, in countries where foreign commercial policy and domestic protection determine quotas (as, for example, in Switzerland), the authorities are generally reluctant in granting permission for individual compensation transactions, partly because of the decreased protection which may result from it for certain articles and partly because of their existing arrangements with foreign countries.

Bilateral compensation transactions, as well as trade via exchange clearing agreements, are methods of settling international accounts in cases where exchange control prevents the ordinary mode of meeting foreign obligations. Bilateral compensation transactions are surveyed in detail later and are

[1] H. Syz and Nationalrat Duttweiler at the same conference (footnote 3, p. 106). [2] *Neue Züricher Zeitung*, 1st February, 1932.

cited here not only to show the *special* purpose they may fulfil in connection with quantitative regulation, but also in order to draw attention to the fact that certain measures of foreign trade control which are really parts of different systems tend to become connected in such a way as to form new hybrid systems of regulation.

The methods by which governments have at various times attempted to diminish the inconveniences which arise from the technical necessity of operating fixed licencing systems on the basis of a given import period show that, apart from the major problem of determining the kinds of goods to be restricted and the extent to which they are to be reduced, the difficulty of the basis year is probably the most important problem confronting the licencing authorities.

A further technical problem arises from the fact that the demand for almost all products is in a sense seasonal. In order to enable importers to purchase given commodities at the most convenient periods licences ought to cover the demands for a whole year. But few firms are able to foretell their exact requirements with respect to quantity, quality and source of supply for such a long period ahead. The tendency is, therefore, for each individual firm to ask for larger licences than are actually needed in anticipation of the official percentage reductions. This the firms do even if they know that they themselves will not be able to use their licences to the fullest extent. Once the reductions are applied and extra profits to be obtained, there always exists the possibility of selling import rights in one way or another. Yet all governments endeavour to reduce this traffic in licences to a minimum.[1] Thus, while the seasonal changes in supply and demand favour the granting of annual licences, the desire to prevent subsequent redistributions of import rights induces governments to restrict import licences to shorter periods. If foreign commercial policy plays an important rôle in the control system, a further inducement exists to grant licences for short periods of time in order to retain a maximum of flexibility. Looking at the actual practice, in this respect, of the distribution of licences we find that there are few sections of the administration of import control where the trial and error method has been used to a greater extent. The most general method is still to grant licences for quarterly periods,[2] sometimes on the basis of an annually fixed quota.

[1] See *infra*, pp. 233–5, Chapter XV.
[2] For example in *France* and *Switzerland*.

In some countries annual licences have been tried, as, for example, in *Latvia*,[1] which country began by granting import permission for three-month periods. The publication of a rather amusing example of the inappropriateness of short period licencing may have had something to do with the change to annual licences. In the customs house at Riga there stood a large block of granite weighing three tons. The quota licence of the unfortunate importer provided only for the importation of 1·2 tons at a time. The block was an "indivisible article"; its importation could not be spread over time.[2] Let us hope that an exception was made.

Turkey has probably experimented most with licensing periods. This country began by giving monthly permissions (12th November, 1931), then changed very soon to quarterly licences, satisfied the demands of trade by extending the period to six and to nine months (April, 1933), but finally reverted to granting licences for half-yearly periods. *Rumania* distinguishes between finished products on the one hand for which quarterly licences are given and half-finished products and raw materials on the other which are imported on the basis of permissions granted every six months.[3]

Every now and then, generally as a result of complaints on the part of importers,[4] attempts have been made to take into consideration seasonal fluctuations in demand and supply. In connection with a commercial treaty between France and Greece of March, 1934 (according to which Greece was to supply 13 per cent of the total wine quota), Greek annual imports of wine into France were to be distributed in the following way:—

October–December, 30 per cent
January–March, 35 per cent
April–June, 25 per cent
July–September, 10 per cent

Other countries also have from time to time expressly stipulated ways and means of taking care of seasonal fluctuations. Nevertheless the fact that the desire to facilitate trade has always competed with attempts to curb the abuses generated by partially controlled systems, has made it impossible to eliminate all the

[1] After 2nd November, 1932.
[2] See *Industrie und Handel*, 7th November, 1931.
[3] Article IX of the Quota Law of December, 1932.
[4] See, for example, report of the Swiss Wholesale Traders' Meeting, in *St. Galler Tageblatt*, No. 168, 8th April, 1933.

inconveniences which arise from distributing licences for limited periods.

Licencing systems in general, however, in spite of the new problems to which they give rise, have diminished the injustices inherent in a regime of fixed quotas. The rush to the frontier in anticipation of the exhaustion of the quota, the unstabilizing losses and gains caused thereby, and the discrimination against small firms, all have been reduced to a minimum.

Although governments have usually had large sections of the community behind them at the time of the introduction of quantitative import control, opposition to the measures of regulation tends to grow as the actual administrative detail causes inconveniences to the same or other sections of the community. In connection with the distribution of import licences governments are usually put into peculiarly difficult positions. If they extend the allotment of licences to new or expanding firms the authorities are blamed for the possibly less advantageous position in which the old firms find themselves. If the distribution of licences is restricted to existing firms in relation to their imports in former years the government is said to be opposing the natural progress of commerce. Because of these difficulties and for reasons of foreign commercial policy, it was suggested at quite an early stage of quantitative import control that the distribution of licences should be left to the foreign suppliers.

Quite apart from the independent attempts of foreign producers to act in concert once a definite quota had been assured to their particular country, importing countries have themselves transferred the right to distribute the total quota (for each country) among importers. As early as December, 1931, an important French interprofessional committee suggested to the Ministry of Agriculture that the administration of licences should in some exceptional cases be given to the exporting country.[1] Such a cession of rights is the first step away from entirely "autonomous" import quotas. It leads directly to that form of import quota which is the result either of governmental or more likely of private arrangements for quantitative limitation of markets and which, on account of the international negotiations which precede it, has been called *bilateral*. The next chapter describes this form of quantitative trade regulation.

[1] See *Industrie und Handel*, 4th December, 1931.

CHAPTER IX

BILATERAL QUOTAS

The majority of quantitative import regulations in force have been decreed by national governments without previous negotiations with foreign countries. In general, the existing licensing systems are administrated by government departments or delegate bodies in the importing countries. To this general rule there are, however, three important exceptions. In the first place, the assurance to a particular country of a definite exportable quantity has induced exporters to act in concert in order to obtain the benefit of the higher price (the result of the quantitative restriction) in the importing country.[1] Secondly, importing countries have themselves transferred the right to issue licences to the exporting country. Thirdly, the actual quota has been determined by way of negotiations with the foreign exporter or producer and the licencing is administered by the exporting country alone or by both the exporting and the importing country.

The last mentioned exception to the general rule of entirely autonomous quotas is the *bilateral quota* proper. For the fact of foreign licencing alone (second exception) does not necessarily mean that the quota has been determined bilaterally. The independent practice of licencing on the export side is, of course, from the point of view of the import country, an involuntary inroad on its "sovereignty". Although the origins of, and the motives for, these different types of dual control are not the same in each case, the effects are similar in a number of ways. For this reason all forms of foreign control of nationally introduced quantitative regulations can be conveniently surveyed under the heading of bilateral quotas.

It is not easy to put one's finger on a case of concerted action on the part of exporters which is independent of a definite transfer of the right to issue licences or of previously arranged

[1] See *supra*, pp. 66–7. Lautman, op. cit., p. 66, draws attention to the possibility of exporters making up in this way by higher prices what they would lose on account of the reduced quantity.

bilateral quotas; for it is generally not possible to say whence the initiative for export control has come, i.e. whether the exporting country has itself begun by granting licences to exporters or whether the importing country has actually transferred the right to issue licences to the exporting country.

Thus, at practically the same time as such transfers were suggested in France,[1] the *Dutch* government proposed a law for the introduction of export certificates.[2] On 4th January, 1932, a royal decree provided for export licences in the case of shipments to France.[3] The governments of *Germany* and *Italy* have generally contented themselves with encouraging the formation of export selling organizations, leaving the actual distribution of export licences to private or semi-private bodies. The government of *Finland*, on the other hand, introduced legislation providing for national control of export commodities, subject to foreign quota limitations.[4] From the point of view of the effects of export control it is, however, a matter of indifference whether the exporting country issues licences independently or whether it has expressly obtained the right to do so from the importing country.

France and *Belgium*, more than any other countries with quantitative import control, have tended to transfer the right to issue licences to exporting countries. France followed this policy in the case of agricultural products in particular and Belgium in the case of manufactured articles.

With very few exceptions French agricultural quotas were introduced "autonomously". These commodities present a clear case of a transfer of the right to issue licences without bilateral quota arrangements. The reasons for such transfers have been manifold. Apart from the desire to avoid charges of favouritism at home and abroad,[5] it was believed that the control might be made more effective if the chance of special profits were presented to the foreign exporters. Technically, also, the efficacy of the quota restriction may be improved if foreign shipments are sent *en bloc* by larger organizations to one customs house as a result of foreign authorization.[6]

[1] See *supra*, p. 110.
[2] See *Nieuwe Rotterdamsche Courant*, 28th November, 1931.
[3] Ibid., 5th January, 1932. Subsequent decrees (4th and 12th May, 1932) provided for similar export certificates in the case of shipments to Belgium-Luxembourg.
[4] See *Industrie und Handel*, 16th April, 1934.
[5] Cf. Weiller, *Revue Economique Internationale*, June 1932, p. 509.
[6] Cf. Tomitch, op. cit., p. 83.

Usually the French government demanded certain guarantees from the country to which the right to issue licences was transferred. When Holland obtained the administration of certain of its French quotas for agricultural products, it was agreed that the Dutch authorities would see that (*a*) the quotas were not exceeded, (*b*) shipments to France would be spread evenly over the quota period, and (*c*) normal commercial relations would be maintained.[1] The last condition was probably meant to imply that Holland would not tolerate the establishment of export monopolies. In order that the special profits to be obtained as a result of the restricted supply should flow into Dutch rather than into French pockets, the establishment of monopolies was not necessary.[2] By virtue of this stipulation, however, the French consumer did not have to pay even higher prices than those resulting from the original limitation of supply.

At the beginning of 1932 [3] the right to issue licences for export of a great number of agricultural commodites (including milk and butter) was transferred by France to Holland and to Italy.[4] This meant that the commodities in question could be imported only on the basis of a licence granted by the exporting country. Apart from the great number of bilateral quotas proper, France has at times granted the right to issue licences for exports of manufactured products. Thus scythes and sickles from Austria could only be imported on the basis of an authorization from the *Oesterreichische Sensenwerkeverband* of Linz, Austria.[5]

Export licences are not always granted by private organizations. Frequently governments realized the fiscal advantages which could be obtained from charging fees for the delivery of permits. Just as the authorities in importing countries have often made the issue of authorizations dependent on the payment of licence fees, once it was realized that the restrictions resulted in special profits to importers,[6] the authorities in exporting countries

[1] See Angelini, op. cit., p. 60.

[2] See below, Chapter XI, for fuller analysis of the distribution of such profits.

[3] See *Journal Officiel*, 17th January, 1932.

[4] Italy was to issue licences for shipments to France of the following commodities: Cattle, calves, pigs, poultry, rabbits, fresh or cooked pork, ham and other meat, excepting salami. Another example of foreign export authorization are the shipments to France of grape juice from Spain and Greece.

[5] See Angelini, p. 61, for list of further foreign organizations charged with the administration of export licences to France.

[6] See Chapter XV, " Further Problems of Quantitative Import Regulations."

have attempted, generally successfully, to come into the possession of part of the extra gains which exporters are liable to reap if licences are distributed in the exporting country. Thus, a *Dutch* royal decree of 5th April, 1932, provided for fees payable by the exporters of butter to France if the French price plus normal costs of transport and other charges was higher than the price in Holland. The minimum of this charge was fixed at 70 per cent, and the maximum at 100 per cent of the margin between the French and the Dutch price of butter.

The additional pressure which may under certain conditions be exerted in foreign commercial negotiations and the tighter control which may be exercised over internal industries if the government has a say in the distribution of export licences, have both operated as further inducements to the authorities in various countries to participate in the administration of export permits. The way in which *Belgian* quotas are administered abroad illustrates this tendency.[1] Imports of a large number of Austrian textile goods [2] enter Belgium on the basis of export authorizations granted by the Foreign Trade Department of the Austrian Ministry of Commerce, Industry and Trade. Hungarian exports of textile goods to Belgium are controlled by the *Office Royal Hongrois de Commerce Extérieur* [3] and, similarly, the imports from Poland of such goods are subject to export permits by the Foreign Trade department of the Polish Ministry of Industry and Trade.[4] Though in the case of the British, German and Italian quotas, the respective Chambers of Commerce in Brussels have the right to issue licences, the influence of the government, in the case of Germany and Italy, is certainly considerable.[5]

Soon after the system of transferring the right to issue licences to exporting countries had been applied to a number of agricultural

[1] Most of the information in the text concerning the external administration of Belgian import quotas has been obtained from the German publication *Eildienst*, 17th April, 1935.

[2] For reference: Tariff items 496, 509 bis, 510, 511, 611, 612, 621, of the Belgian nomenclature.

[3] For reference: Tariff items 496, 509 bis, 510, 511, 612, of the Belgian nomenclature.

[4] For reference: Tariff item 611 of the Belgian nomenclature.

[5] Private bodies distributed licences for exports within Belgian quotas in: Holland (for artificial silk: *Internationaal Kunstzijde Verkoopkantoor*, Arnheim); Switzerland (among others the *Association Suisse de la Confection et de la Lingerie, Association des Industriels Suisses de la Chaussure*); France (among others *Syndicat Général des Cuirs et des Peaux de France, Minoteries de Mais, Fabricants Français de Tourteaux. Syndicat des Fabricants de Soieries de Lyon*).

products a storm of opposition against it broke out in France. Profits which could hitherto be made by French importers went to the foreign exporters on account of their improved bargaining power. To what extent the higher prices which French importers were now obliged to pay were due to the fact that licences were issued abroad and to what extent they were the result of complete export monopolies cannot be stated with absolute validity. In any case it was easy to blame the acquisitiveness of foreign exporters for the higher prices which French consumers had to pay [1] and thus make the opposition against external distribution of licences more effective. Retailers also joined in the propaganda against the system,[2] drawing attention to the monopolist position into which exporting countries were generously placed by the French government. In the words of a comparatively impartial observer like J. Proix, " ce mode de repartition des contingents (i.e. authorization abroad) a suscité plus de protestations de la part du commerce français que le contingentement lui-même." [3] As a result of the propaganda against foreign licensing the system was discontinued for many agricultural products in October, 1933.

The French Press expressed satisfaction with this change of policy in the pious hope that the repatriation of licensing " mettra fin à la speculation et à l'exageration des prix favorisés par ce systeme ".[4] True, importers may no longer have to pay prices as high as before but there is no reason why the repatriation of licences should benefit the French consumer. Even the *Confédération Générale des Producteurs de Fruits et Légumes*, though its members (as long as they are not importers at the same time) have nothing to lose if licences are granted abroad, joined in the general satisfaction over the return to domestic distribution of import permits which would be certain " de mettre fin aux abus qui ont pu resulter pour certains produits de leur gestion par l'étranger ".[5]

The much attacked system was not abolished entirely, however, as may be seen from the continued opposition against it after October, 1933. In an open letter by the *Comité d'Action Economique et Douanière*, published in April, 1934,[6] the old

[1] For examples of the development of prices of quantitatively limited import commodities, see Chapter XII.
[2] See *Industrie und Handel*, 4th July, 1932.
[3] See his article in *Revue d'Economie Politique*, 1933, p. 437.
[4] *La Journée Industrielle*, 10th November, 1933.
[5] Loc. cit., 3rd–4th December, 1933.
[6] Loc. cit., 29th–30th April, 1934.

grievance is renewed and the higher prices of certain imported commodities expressly attributed to the practice. And as far as manufactured products were concerned France continued to transfer the right to issue licences to the exporting country. Imports from Belgium of iron wires of all kinds, of knitted woollen goods, and a large quantity of heavy machinery had to be accompanied from the end of 1934 onwards by certificates issued by the Belgian *Inspection Générale de l'Industrie*.[1]

The practice of voluntarily transferring the right to issue licences to the exporting country seems to have been used extensively only in France and Belgium. In *Holland*, the Chambers of Commerce of foreign nations are at times charged with the administration of the quotas applying to their respective products and the system of bilateral quotas proper has been extended of late by the Dutch authorities.[2] Switzerland, the other important country with quantitative import control, has not transferred the right to issue licences to foreign countries. The fact that France and Belgium have continued the system, though less extensively than before, shows that the advantages in the shape of less foreign opposition to their own restrictions and diminution of unpleasant discussion with their own individual importers have outweighed the state's consideration for the well-being of importers who as a class are bound to lose by it.

The bilateral quota is largely an extension of the practice of large industries forming themselves into loose international cartels for the purpose of the division of international markets. While in the case of agricultural production there has never been any collaboration between national organizations even if they existed, manufacturing interests in different countries have particularly in the post-War period realized the monopolistic advantages of organization in this field. Incidentally the term "quota" seems to have originated with cartels, designating a certain part of the total production which is to be supplied by a single firm. When in 1931 it became part of the French government's commercial policy to reserve, to an unprecedented degree, the home market for the domestic producer, it was a natural thing to make use of existing international organization of manufacturing industries in the general endeavour to restrict imports.

[1] See *Eildienst*, 17th November, 1934.

[2] The administration of Danish meat exports to Holland by Denmark (not unlike the Danish control over the British bacon quota) is an exception rather than the rule.

The pressure of imports of manufactured articles was particularly strong from Germany on account of deflation in that country in 1931, and in order to reduce this increasing flow of imports from Germany in a way least liable to interfere with existing commercial treaties the so-called Franco-German Economic Committee was set up. And in a similar way to that used by the international cartels to divide national markets among themselves, the so-called industrial *ententes* negotiated under the auspices of this committee came to agreements as to the limitation of German exports to France. As a result a large number of the import restrictions on manufactured products were not imposed outright by the French government, but were negotiated by the interests involved in both countries.

The quotas originating in this way have been termed "bilateral"[1] because they did not arise from a unilateral action on the part of a national government but were the result of negotiations between the respective private interests in both countries. They are not bilateral in the sense that both countries agreed to restrict their exports. The negotiated quantitative reductions of exports could also be expressed, of course, as percentages of the shipment shown in the statistics for former years, so that there is little difference between the form of the autonomous and the negotiated import quota. But the licensing of imports was generally left to the exporting country or administered by the authorities in both countries, while in the case of the autonomous quota the importing country as a rule retained at least the right to issue licences.

The policy of restricting imports of manufactured articles on the basis of negotiations with the supplier has been followed most extensively by *France*. During the period between December, 1931, and May, 1932, the Franco-German economic committee is said to have been instrumental in bringing about 150 individual agreements between French and German producers.[2] The policy of bilateral quotas continued until well into 1933[3] when many of them were revised downward in

[1] Other terms for the industrial ententes used in the French literature on the subject are: "*interlocutoir,*" "*volontaire,*" "*contractuel,*" and "*amiable.*"

[2] Cf. Piettre, op. cit., p. 85. See also Angelini, op. cit., pp. 57–8, for list of industrial ententes at the end of March, 1932.

[3] According to the *Neue Züricher Zeitung* of 7th September, 1933, the most important bilateral quotas between Germany and France covered the following industries: China ware, glass, electrical machinery, gas stoves, petrol stoves, furniture, lamps, plumbing goods, clothing, socks, tool machines, and wood wares.

connection with the French government's subsequent method of using quotas as a weapon of commercial policy.[1]

The first industrial *entente* between Germany and France (decreed by the French government after ratification by both countries on 7th January, 1932), covered toys and games; export licences issued by the Chamber of Commerce of Nuremberg had to accompany importation of such articles into France. Similarly the authorization of imports into France of German kitchen utensils (enamelled) lies with the association of the manufacturers of such articles situated in Berlin.[2]

Another early bilateral quota was the one restricting German imports of light electrical machinery agreed to by the respective manufacturers' associations in both countries. The co-operation between these two organizations continued long after the quota had been decreed by the French government. In order to avoid the inconveniences which might arise from changes in demand it was revised every three months. After two years of operation of this *entente* both national organizations declared that the arrangements had functioned to the satisfaction of all concerned.[3] Apart from this isolated piece of information on the actual working of a bilateral quota very little has been published on the matter by those intimately concerned.[4] The general approval of this method of quantitative import limitation seems to signify, that, while French producers and foreign exporters were satisfied with the way prices of the affected articles could be maintained in the French market, importers gained from such higher prices what they might have lost by virtue of the reduced quantity handled.

The majority of French bilateral quotas had been negotiated Germany where the existing industrial organizations and governmental encouragement to combinations in the export industries facilitated international organization. A considerable number of bilateral quotas, however, was concluded with Belgium, as, for example, the restriction on the importation of furniture.[5] Some of the bilateral quotas were decreed

[1] See Chapter IV, "Foreign Commercial Policy."

[2] See article by Proix, *Europe Nouvelle*, 20th February, 1932.

[3] Cf. M. Surrys in the discussion following a report on quota matters by M. Marlio at the *Société d'études et d'informations économiques*, February, 1934; quoted by Piettre, op. cit., p. 87.

[4] Even M. Piettre who has made a very intensive study of the subject on the spot alludes to the difficulty of obtaining information on this subject, "les producteurs ou les groupements de producteurs intéressés gardant sur cette matière un silence prudent."

[5] *Journée Industrielle*, 27th February, 1932.

after simultaneous discussion with the producers in a number of countries, based thus on an "*entente internationale*" as in the case of glassware. Germany, Austria, Belgium, and Czechoslovakia participated in the discussions concerning the quantities which each of them was to send to the French market after February, 1932.[1] The imports of manufactured products from Great Britain were generally restricted by means of bilateral quotas. As in the case of the other countries, British trade organizations or Chambers of Commerce distribute licences to exporters. In the case of cotton piece goods, yarns and clothing, the Manchester Chamber of Commerce grants export authorizations.[2]

Most of the original *Dutch* quotas for industrial products were autonomous. But during the later stages of the Dutch regime of quantitative import restrictions the system of bilateral quotas came to be used to an increasing extent. When in the spring of 1936 the re-introduction of tariffs in place of the existing quantitative limitations was discussed it appeared that such a substitution of method was by no means an easy matter since by then the majority of quotas for industrial products were based on bilateral agreements.[3] *Belgium* also, apart from transferring the right to issue licences to exporting countries,[4] established a number of bilateral quotas. Imports into Belgium of German coal were limited quantitatively on the basis of previous negotiations between producers in both countries.[5]

Switzerland, on the other hand, seems to have been opposed to industrial *ententes* throughout the whole period of her import regime. Thus, at the same time that France came to an agreement with Germany on the quantities of electrical apparatus to be imported, the Swiss article was subjected to an autonomous quota on the part of the French authorities. Although the Swiss Press drew attention to the disadvantages to Swiss industry arising from the government's prohibition of industrial *ententes*,[6] Switzerland has never used bilateral quotas based on individual

[1] See *Neue Züricher Zeitung*, 7th September, 1933.

[2] See F. A. Haight, op. cit., pp. 32–3, for more elaborate description of the British system of export licencing. On p. 34 a form for "Application for Allotment" is conveniently reproduced.

[3] See *Nieuwe Rotterdamsche Courant*, 4th March, 1936.

[4] See *supra*, p. 114.

[5] Export-Import licences were administered by the Rheinisch-Westphalische Kohlen-Syndicat, the Aachener Steinkohlen-Syndicat and the Niedersachsische Kohlensyndikat; (*Berliner Boersen Zeitung*, 10th November, 1933).

[6] See *Neue Züricher Zeitung*, 31st January, 1932.

agreements for her own imports nor allowed her exporting industries to establish contracts with their foreign competitors. The reason for this opposition on the part of the Swiss government was the same as in all other cases where private action might have interfered with the authorities' ever changing objects of foreign commercial policy. Flexibility of the system under a maximum of state control was desired at all costs.

In spite of the frequent governmental declarations in France that the system of quota regulations was only temporary and should be regarded as an emergency measure,[1] it has lasted now for nearly seven years. The main reason for the longevity of the regime is the simple fact that two powerful interests, agriculture and industry, have profited from it. Excepting on the one hand the opinion of industries producing primarily for foreign markets, the views of the maritime Chambers of Commerce and of professional economists, and disregarding on the other hand the technical grievances of importers and traders, the economy as a whole was not opposed to it. There is a general reluctance (based perhaps on a somewhat guilty conscience) on the part of private interests openly to admit the advantages accruing to them as a result of governmental policies. This did not apply, however, in the case of the French system of bilateral quotas. The rapporteur's report of the "*Confédération Générale de la Production Française*" declared in 1933 that bilateral quotas "ont substitué un peu d'ordre à une concurence dechainée et ont contribué à assainir des marchés complètement desorganisés."[2]

Even those generally opposed to quantitative import restrictions spoke in favour of bilateral quotas. French exporting industries expecting that foreign countries would in some way restrict imports could hardly be opposed to that type of restriction in France which, when applied by foreign countries, would cause them least harm. The "*Comité national des conseillers du commerce extérieur la France*" recommended, as early as 1932, that if further quotas were to be introduced they should not be imposed unilaterally but negotiated with the exporting country.[3]

It would lead too far away from the subject to discuss the losses to consumers and other sections of the community which are bound to result from the existence of powerful combinations.

[1] See *infra*, pp. 241–2, Chapter XVI.

[2] Quoted by Piettre, op. cit., p. 88.

[3] See Report N. 168 for the period May–June, 1932, p. 288 ff. (by Proix), of this organization.

Suffice to say that the extension of bilateral quotas, though benefiting certain sections of the community, may well be the cause of more considerable losses to the community as a whole than the operation of autonomous import quotas, for a government may be expected to have the interests of consumers as a whole more at heart than can be expected from individual private interests. The increase of "frictions" in the economic system, resulting from the tendency of combination which undoubtedly receives a new impetus from the practice of bilateral quota restrictions, may turn out to be even more dangerous to the public interest than the creation of new vested interests to which any regime of import limitations will give rise.

Even the argument in favour of this type of import restrictions from the point of view of international amity loses some of its force when it is noted that foreign exporters have frequently been induced to agree to "contingents amiables" at the threat of the imposition of an autonomous quota. One of the most astute students of the French quantitative import regime, M. Weiller,[1] goes so far as to say that there is little difference between autonomous and bilateral quotas on this account.[2] If it is the general policy to restrict imports, it is undoubtedly an advantage if the authorities seek the assistance of private enterprise in the determination of the scope of the limitations as well as in their technical administration. But it is against the general interest to leave the operation of restrictive systems almost entirely to private business as is the case under an extended regime of bilateral quotas.

[1] *Revue Economique Internationale*, June, 1932, p. 510.

[2] Cf. also F. A. Haight, op. cit., p. 39, and the quotations from the German Press reprinted there.

CHAPTER X

IMPORT RESTRICTION THROUGH EXCHANGE CONTROL

In the case of exchange restrictions we are not, as in the case of quotas, confronted with a number of more or less clear-cut methods (such as the global quota, the country quota, the bilateral quota), but with a multitude of different schemes of licensing. True, during the early stages of European exchange control, it was possible to distinguish between two general types of restriction :—

(*a*) General percentage reduction of the amounts which may be spent on import commodities, i.e. a reduction based on a preceding year without discrimination against particular products or countries, and

(*b*) Differentiated treatment of each import article, according to certain variable principles of national necessity.

But to-day the general reductions which existed in 1931–2 (Germany and to some extent Bulgaria) have all given way to complicated licensing systems which treat commodities in different ways not only according to their nature and quality, but also according to their origin.

During six years of complete systems of import regulation through currency measures there have been innumerable changes in the actual technique of limiting imports. Little is gained from an analysis of these changes and variations in technical detail except the conclusion that there has been no definite development from one method towards another. Examination of the methods of quantitative import control has shown that such a development existed in some countries, such as the gradual change in France from global quotas to country quotas or from autonomous to bilateral quotas for industrial products. But as far as exchange control is concerned, no trends of this kind can be observed. Two reasons for the absence of a more or less continuous development in the technical methods of import restriction through exchange control may be mentioned.

In the first place control has been operated only in a few

cases by a single agency from the beginning, so that the conditions were present for an even greater number of changes in different directions.

Secondly, import restrictions in exchange control countries have often been connected with other regulations whose purpose was the attempt to prevent irregular capital exports.

For example: imports may at times enter the country only when accompanied by a permit of the central bank which states that the importer will at a certain date be allotted enough foreign exchange to pay for such goods. One reason for this provision may be that the central bank wants to have a check on the quantity imported. It may well be that the importer had applied for (and obtained) a greater amount of foreign exchange than was really needed for the payment of the shipment concerned, the difference being transferred abroad as a form of "irregular" capital export. But at the same time, the purpose of the provision under consideration may have been the prevention of imports for which at a later date the central bank would find itself unable to allot the necessary foreign exchange. Thirdly, the accompanying permit might have been necessary because the authorities wanted to prevent importation of goods which were to be paid for with foreign currency purchased in the so-called "black" market, i.e. probably at a higher rate than that quoted officially by the central bank.

Imagine now that the conditions which made these precautions necessary are changed. A clearing agreement is established and exchange permits are no longer necessary. A decree, published in the official gazette of a particular country, that exchange permits need no longer accompany goods entering the country may mean that the establishment of a clearing has been the reason for the change. At the same time, it may imply that the central bank no longer finds it necessary to prevent irregular capital exports or finally that some other way of payment has been devised which needs no check on the part of the national bank of this kind.

What is true for the technical detail of the administration of control is true for the way in which the total value of imports is reduced within a system of currency measures. Again, all kinds of changes determined from the outside or arising from special internal policies may induce the authorities to apply another method of restriction before the ultimate permission of the central bank to *pay* becomes effective. But whatever the variations of method in one or in different systems of exchange

control may be, the most general difference between quantitative regulation on the one side and control by currency measures on the other is this: quotas fix the *amount* of goods, exchange control fixes the *outlay* on them.

Another difference between the systems of exchange restrictions on imports which could have been established in the early phases of exchange control was the relative influence of commercial interests as opposed to currency considerations. To-day it would be a fruitless task to pick out the countries where the predominating influence on the choice of the commodities to be restricted is exerted by the central bank or those where the Ministry of Commerce or special interests of trade or industry determine the operation of import limitation. On the whole, protection of domestic industries has come to play a more important rôle in the existing systems of exchange control in spite of the fact that the powers of central banks have been widened in many countries.[1]

The early German system of import control avoided all possible connection with commercial policy. Its object was to prevent irregular capital exports, not to improve the balance of trade. But by far the majority of European countries which introduced exchange restrictions on imports attempted to bring about an improvement of the balance of trade by keeping imports below their natural level. Since it was the object of the authorities to satisfy a maximum of the current demand for foreign exchange, discrimination between different types of import goods became necessary. Obviously it would have been a bad policy to restrict, for example, the importation of certain raw materials necessary to the production of export goods. Though in some cases the distinction is plain, the choice of the products to be restricted, in most cases, seems to be arbitrary to a great extent. The temptation to protect certain home industries, therefore, arises almost inevitably. Whether intended or not, protection is the natural outcome of import restriction by exchange control.

The arbitrary nature of most of the European systems of import control through currency measures is apparent in the almost complete lack of published principles according to which central banks or other special institutions allot foreign exchange for imports. In the few countries where general rules have been laid down they have been couched in exceedingly vague terms.

[1] Examples of this development: in *Greece* (see *supra*, Chapter III, pp. 33–8) and *Denmark* (see *infra*, pp. 132–3).

Article 3 of the *Danish* law concerning " The Redemption of the Notes of the National Bank and Measures for the Safeguarding of the Danish Currency ",[1] may serve as an illustration. It reads as follows [2] :—

> " The Minister of Trade, Industry, and Shipping shall be authorized to take import-regulating measures to secure the ability of the country to pay its foreign obligations and for the promotion of trade-political purposes, to secure and extend the export of the country, to fulfil present and future agreements with foreign countries, and to maintain the re-export and transit trade of the country, besides to maintain and extend the production of this country for export as well as for home consumption through the supply of raw materials . . . "

Internally the so-called *Valutakontor* [3] arranged import commodities in the following order of precedence for the purpose of allotting foreign exchange[4]:

(1) Commodities necessary for the maintenance of Danish exports, for which the allotment of foreign exchange takes precedence over all others according to law. These include, in the first instance, fodder products and other commodities needed in agricultural production ;
(2) Commodities necessary for the maintenance of domestic production ;
(3) Commodities whose importation is deemed " necessary " ;
(4) Commodities whose importation is deemed " desirable " ;
(5) Commodities whose importation is deemed " dispensable ".

In *Hungary*, the general principles according to which the National Bank [5] allotted foreign exchange to importers also included consideration of export interests and general production. In addition, certain social considerations played a part in the choice of products which were to have precedence within the allotment scheme. Raw materials whose importation would lead to *new* employment and commodities necessary for the production of articles consumed by the mass of the population were to be treated favourably.[6]

[1] This law prolonged import control which has existed since the beginning of 1932 for the years 1936 and 1937.
[2] Official Danish translation.
[3] See p. 132 on the constitution of this body.
[4] See *Devisenrecht der Welt*, p. 15.
[5] In the early stages of Hungary's system of import regulations the National Bank endeavoured to deal with it without the assistance of outside bodies.
[6] See *Oesterreichischer Volkswirt*, supplement to No. 48, p. 561, 29th August, 1931.

Though no definite principles were published in *Latvia*, it was stated in the press of that country that the National Bank had divided import commodities into the following groups for the purpose of foreign exchange allotment :—

(1) Commodities produced at home in sufficient quantities. Importation of such commodities to be stopped entirely.
(2) Commodities produced at home but not in sufficient quantities to satisfy domestic demand. Importation of such commodities to be reduced to the necessary quantities.
(3) Commodities whose importation is deemed undesirable, even if they are not produced at home. These would include "luxury" products of all kinds.[1]

In most of the other countries, no definite principles as to the order of precedence of different foreign commodities seem to have been applied. One may assume, however, that central banks have generally put the interests of currency stability before those of special industrial or agricultural groups. The vague principle of the "economic necessity" of the import products concerned has often served as a defence against the protectionist pleas of special interests. Central banks, to the extent that they *were* interested in preventing protection from gaining ground, have not always been successful. The principle of "economic necessity" seems to have assisted the national banks of *Austria*,[2] *Estonia* [3] and *Bulgaria* [4] in their policies of foreign exchange allotment.

One of the objects of quantitative regulation of imports has been the desire to forward certain aims of external commercial policy. The practice of using import limitations in this way has spread to practically all countries with direct control measures. By 1937 it had become accepted policy everywhere. But in the early stages of direct regulation only a few countries attempted to use restrictions with this end in view. Generally those countries would follow the practice which had not yet any immediate reason for reducing imports but which wanted to safeguard themselves against the unfavourable effects of restrictions in

[1] See *Devisenrecht der Welt*, p. 35.

[2] In *Austria*, as in Hungary, the National Bank at first regulated imports by discriminatory allotment of foreign exchange without outside help.

[3] See *supra*, Chapter III, pp. 38–9, for further description of Estonia's import regime and the National Bank's consideration of the interests of the currency.

[4] This principle was applied by the National Bank (before a full system of import restrictions was introduced) in the form of an outright import prohibition of a number of "luxury goods" in December, 1931.

other countries. One type of exchange restriction which had at times this retaliatory character has been discussed in Chapter VI, where it was shown that many clearing agreements served this purpose. But direct import limitations through exchange control have been used in the same way. Monetary authorities have generally been reluctant to admit officially that considerations of commercial policy entered their decisions.

Denmark is the significant exception. The original exchange control law [1] and all subsequent prolongations including the one which extended the regime for 1937,[2] stipulate that the Minister is empowered to employ import regulations as a means of foreign commercial policy. Indeed in the Act this object took precedence over that of currency policy. Furthermore, it was stated in the original Act that, notwithstanding the general principle that importation of particular commodities should not be reduced below 45 per cent of the value of 1931, imports may be reduced even more, if the *interests of foreign commercial policy* demanded it.

In *Hungary*, also, objects of foreign commercial policy played their part in the determination of the products to be restricted.[3] In later years, constant negotiations took place not only between exchange control countries themselves but also between quota countries and exchange control countries, for the purpose of coming to agreements with regard to the administration of trade control by the partners concerned. Thus, in connection with the establishment by Belgium of annual import quotas for a number of Czechoslovakian products in 1934, *Czechoslovakia* promised to allot certain amounts of foreign exchange for Belgian industrial articles.[4] When, in the same year, France resorted to a kind of reciprocity system of quotas,[5] Denmark was ready to grant better terms to France within its system of exchange control, provided France agreed not to reduce Danish quotas below a certain minimum.[6]

It is interesting to note that the United States in the last few years has endeavoured to introduce a kind of "most favoured nation clause" into her treaties with countries which have introduced foreign trade regulations. Equality of treatment

[1] See *Lovtidenden*, A—Nr. 55, 8th December, 1932, p. 1879.
[2] See *supra*, p. 124.
[3] See *Oesterreichischer Volkswirt*, 18th June, 1932.
[4] A treaty of 25th June, 1934, supplemented a similar agreement of 1st May, 1933.
[5] See Chapter XVI, *infra*, p. 241.
[6] *Frankfurter Zeitung*, 29th February, 1934.

was to be obtained, for example, by stipulating that an exchange control authority shall not reduce the percentage amount of payment for United States products more than for imports from other countries.[1]

Preceding some of the technical problems of import regulation through currency measures a brief inquiry should be made into (*a*) the general forms of administering such control in different countries, and (*b*) the scope of regulations with regard to the nature of the commodities affected and the extent of import limitation.

(*a*) The sudden outbreak of the financial crisis of 1931 and the subsequent reduction of gold reserves in many European countries left the authorities in charge no time to constitute qualified bodies for the discharge of import control. It fell, therefore, in the first instance, on central banks to administer the allotment of foreign currencies for the payment of imports, without the assistance of organizations which, on account of their immediate connections with trade, would have been more qualified to determine the order of foreign exchange allotment. Among others, the central banks of Germany, Austria and Hungary found themselves in this position in the summer of 1931.

Germany resorted very soon to a general system of import control, the purpose of which was to prevent the flight of capital by reducing the amount of foreign exchange which importers could purchase by an amount deemed to correspond to the decrease in foreign prices and domestic incomes from 1930 to 1931. But even in this country the central bank, during the first week, was obliged to make decisions of a discriminative nature between the satisfaction of different demands. Once the system of general restriction on the outlay in foreign exchange had been introduced,[2] however, the regional Chambers of Commerce were charged with very complete consultative powers and the Reichsbank administered the control through the intermediary of the Ministry of Finance. The assistance of the Chambers of Commerce was highly desirable in the interests of efficiency and to reduce bureaucratic injustices to a minimum.

[1] See "Die jüngste Handelspolitik der Vereinigten Staaten," by B. B. Wallace and H. V. V. Fay, *Weltwirtschaftliches Archiv*, vol. xliv, 1936, ii, passim, and p. 80.

[2] A first decree restricted the amount of foreign exchange which importers could acquire to 75 per cent of the amount used in a corresponding period of the preceding year. In March, 1932, the percentage was reduced to 65 per cent, in April to 55 per cent, and in May to 50 per cent.

It also performed a useful function by giving constant expression to the opposition of those most obviously deriving an advantage from unrestricted trade, against the possible development of a series of primarily financial regulations into an instrument of commercial policy.[1]

This state of affairs prevailed until in 1934 it became necessary to change the entire system of Germany's regime of import control. By that time, not only the Reichsbank, the Ministries of Economic Affairs and of Finance, but also a large number of private organizations had at their disposal men trained not only in the intricacies of Germany's own exchange control system but versed also in all the questions pertaining to the foreign trade in particular commodities. Thus, when in connection with Dr. Schacht's "New Plan" the so-called offices of supervision (of the trade in a particular category of foreign commodities) or "*Ueberwachungsstellen*" were set up, a personnel had grown up through three years of exchange control which was ready to take over the complete regulation of imports. Whatever the evil effects of such a complete system of import limitations may be from the point of view of an optimal distribution of international resources and whatever unfavourable consequences a half-hearted drive for self-sufficiency may have from the point of view of international peace, there can be no doubt that a regulation of trade by groups of large numbers of specialists tends to be less arbitrary and more cognisant of individual demands than a control by a single body composed primarily of government officials.

In *Austria*, the National Bank seems to have allotted foreign exchange autonomously longer than in Germany. Even after the establishment of the so-called "Import-Prohibitions", which were administered by the Ministry of Finance in conjunction with the Ministries of Commerce and of Agriculture, the National Bank had considerable voice as to what commodities were admitted for payment through the so-called "private-clearing" system (a kind of limited market for foreign

[1] For examples of the never-tiring watch which was kept by the large trading interests over the development of governmental restrictions, see *Mitteilungen der Hamburger Handelskammer*; for objections against discrimination in the allotment of foreign exchange for the payment of different import goods, see the polemic of that institution against the Chamber of Commerce of Dresden which suggested goods lists (*Mitteilungen der Hamburger Handelskammer*, 19th March, 1932, p. 262, and 2nd April, 1932, pp. 314–416). For severe criticism of the government for the latter's failure to consult import and export interests at all occasions of a change in, or an introduction of, a restrictive law, see ibid., 1933, p. 174.

currencies).[1] But the list of the commodities subject to special import licences [2] was determined by a Standing Committee of the Government. Thus, the National Bank had apparently little say in the matter of the determination of goods which needed a licence, but could exert an influence on the total volume of imports either by refusing to allot foreign exchange for the settlement of foreign obligations or to allow purchase of foreign currencies in the private clearing market.

The National Bank of *Hungary* also attempted to deal alone with import regulation in its early stage.[3] As early as August, 1931, however, the Chamber of Commerce obtained relatively wide powers of consultation. There was as yet no Import Commission composed of specialists in the trade in particular commodities, and at a meeting of the Union of Hungarian Industrialists, complaints were made about the arbitrary methods of foreign exchange allotment.[4] In January, 1932, special permits, to be granted by the Minister of Commerce, were introduced for a number of import commodities. In June of the same year, an Import Commission was founded and the influence of industry became more and more pronounced in the determination of the goods which needed licences, as well as in the extent of the restrictions. By 1936, there were five different Committees consulting the Ministry of Commerce concerning the operation of the licensing system. Four of these represented industrial interests (though each including a representative of the " consumers ") while only one dealt with trade [5] :—

(1) Iron and metal goods, machines, etc.
(2) Textiles.
(3) Rubber, leather, asbestos.
(4) Glass, glassware, pottery.
(5) Tropical fruit, vegetables, etc.

As in the case of Austria, there seems to have been no definite connection between import control (administered by the Ministry

[1] See *Neues Wiener Tageblatt*, 15th November, 1932, which reports that a difference was still made between luxury goods on the one hand and " commodities not produced in sufficient quantities or at reasonable prices in Austria ". The supervision seems, however, to have been quite liberal.

[2] April, 1932.

[3] See *Oesterreichischer Volkswirt*, 1931, supplement to No. 48, p. 560.

[4] See " *Pester Lloyd*, 30th January, 1932.

[5] These committees were mentioned in a circular of the *German-Hungarian* Chamber of Commerce, April, 1936.

of Commerce) and the allotment of foreign exchange by the central bank. Yet the National Bank had final control by its right to refuse the allotment of foreign exchange even if a permit had been granted.

Germany, Austria and Hungary were not the only countries where the Central Bank had at the beginning entire control and subsequently limited control over import regulation, but they serve as useful examples of the development from complete central bank control to a combination of commercial and currency policy. Just as in the case of quantitative import regulation the co-operation between the authorities and private interests was viewed with favour, so, too, the increasing resort by exchange control authorities to organizations composed of specially trained people must be recorded as beneficial from the point of view of the general interest.

Some countries detailed later serve as examples where the consultation of special groups began at an earlier stage. The struggles for power over import control which have taken place in various countries between central banks and ministries of commerce or similar bodies is rather wide of the subject. They were bound to arise under conditions where the interests of currency stability clashed with the protectionary aims of ministries under the influence of " vested interests ". The result of such differences was usually a continual change not only in the administration and operation of control, but also in the commodities affected.

The many changes in *Rumania's* system of import regulation are an example of the result of such differences of opinion within the authorities concerned. On the other hand, Rumania also serves as an example for countries which instituted, at the beginning of exchange control, some commission or body charged with advisory powers as to the operation of import restrictions and the allotment of foreign exchange.[1] Other countries where such commissions have existed from the beginning, either in an advisory or a determining capacity, included Denmark, Czechoslovakia and Estonia.

In *Estonia*, an Import Commission was established by a law of December, 1931. Although the National Bank had only one representative on the Commission, the influence of the bank seems to have been quite extensive. That the interests of the currency were placed foremost, rather than those of domestic industry, is shown by the particular care taken by the Estonian Government

[1] See *infra*, Chapter III, p. 39.

not to further industrial expansion behind the shelter of import control.[1]

Until the publication of lists consisting of commodities whose importation was subject to special licences, there was no manipulation of imports through currency measures in *Czechoslovakia*.[2] When regulations were introduced in January, 1932, an Exchange Commission was constituted consisting of representatives of the Ministries of Economics and of Foreign Affairs and of industry and agriculture. Though importers applied to the National Bank for their permits, allotment of foreign exchange could only take place according to the decision of this Commission.[3] Later on in 1934, certain products could be imported—probably via Clearing Accounts—without an exchange permit, the certificate of the Ministry of Trade being sufficient title to importation. In April of 1936, dual control still existed.

The most notable example of a large import Commission of the kind under consideration was the *Danish* Exchange Regulation Council. Section 6 of the Act previously mentioned [4] lays down that the scheme of import regulations shall be worked out by this council in collaboration with the Exchange Office (*Valutakontor*) at the National Bank. Although all organizations of trade, industry and agriculture were represented [5] at this council, in the actual work of laying down the scheme of import regulation these organizations had again the right to appoint their technical representatives. Special mention is made in the Act that the Minister of Trade, Industry and Shipping is "entitled . . . to request . . . other organizations, e.g. the

[1] See *infra*, Chapter III, p. 38.

[2] See *Prager Tageblatt*, 20th January, 1932, where it is reported that the National Bank satisfied all demands for foreign exchange if needed for the payment of imports.

[3] Ibid., 10th August, 1932.

[4] See *infra*, p. 124.

[5] "This council shall be appointed by the Minister of Trade, Industry and Shipping after consultation with the Minister of Agriculture and Fishery and the Minister of Foreign Affairs, and shall consist of four representatives of the Agricultural Council, two representatives of the Federation of Danish Industries, two of the Collaborating Trade Unions, one of the Joint Representation of Danish Handicraft and Industry, one of the Committee of the Merchants Guild, one of the Provincial Chamber of Commerce, one of the Co-operating Merchants' Asociations of Denmark, one of the Merchants Council, one of the Collaborating Danish Co-operative Societies, one of the Union of Co-operative Associations in Denmark, one of the Danish Association for the Promotion of Fishery, one of the Shipping Council, one of the Joint Representation of the Danish Associations of Functionaries, one of the Ministry of Trade, Industry and Shipping, one of the Ministry of Finance, one of the Ministry of Agriculture and Fishery and one of the Ministry of Foreign Affairs."

co-operative institutions, to appoint a functionary to take part in (this) work. . . ." The actual administration of control lies with the Exchange Office of the National Bank and although the main lines of the operation are laid down by law, exceptions to the rules may be made by the Exchange Office (Section 4). The initiative, also, to make changes in the general scheme as a result of its special knowledge lies with the Exchange Office.

In 1936, the Exchange Regulation Council and a parliamentary commission which also dealt with matters of currency policy as applying to imports were abolished and the complete control of foreign trade handed over to the Minister of Trade and the Exchange Office of the National Bank. Even before this change import control and foreign exchange allotment were definitely tied together. Permission to import implied permission to pay for the commodities once they were cleared through the customs.

This definite link between import permits and settlement of the foreign obligation arising from such imports, to be found in the case of the Danish system of exchange control, was and is by no means the general rule. Many countries have established such a combination of the two permits only in late years, while others are still at the stage where one Commission gives the right to import while another—generally a department of the central bank—is not obliged to allot foreign exchange to the holder of the first permit. This lack of guarantee to both the importer and the exporter increases enormously the element of uncertainty already large enough in a world where from one day to another the state may prevent its nationals from incurring certain foreign obligations to which their partners in other countries have adjusted themselves.

There is, however, a tendency in the right direction: goods are not allowed into the country unless accompanied by a certificate of the exchange control authority indicating that foreign currencies have been allotted for the particular imports concerned. Czechoslovakia introduced certain regulations at a very early date which brought complete assurance in this respect.[1] In the first place, importers were advised to get an exchange permit from the National Bank before they sent their order. This permit had to accompany the goods when they entered the country, i.e. it had to be sent to the foreign exporter. In this way the exporter also had a guarantee that he would receive payment at a definite date. Although in many other countries, including for example Bulgaria and Greece, goods could enter

[1] See *Prager Tageblatt*, 20th January, 1932.

the country only if the importer could show an exchange certificate of the central bank, there was, of course, no guarantee that exporters would receive payment for goods shipped.

(*b*) As mentioned at the beginning of this chapter, there are to-day practically no countries in Europe which regulate foreign trade without discriminating between different types of goods and different sources of supply. All countries which control their foreign trade by means of currency measures have either drawn up lists of goods needing special permission to be imported or, if this was the simpler method, have published those goods which could be imported without licence while subjecting all others automatically to import control.

A short resumé of the nature of the actual restrictions and their development in a number of countries follows. Some countries have already been dealt with. Greece, Rumania and Estonia have been considered in connection with quantitative import control as a means towards improving the balance of payments (Chapter III); Latvia has been discussed in Chapter II, which dealt with primarily protectionary quotas, and Italy in connection with that type of quantitative import control which had as its initial purpose the achievement of certain objects of foreign commercial policy. The present chapter is concerned with countries where either the chief method of import limitation has been the policy of foreign exchange allotment through monetary authorities, or where the maintenance of currency stability was the predominating object of foreign trade control.

In *Austria*, the first decree establishing a licensing system for seventy-three commodities came into force on 1st May, 1932.[1] The list comprised about one-fifth (value of total imports in 1931) of Austria's imports. Three-quarters of the value (1931) of the restricted products were agricultural. Although this was actually a continuation of Austria's tariff policy which had just begun to favour agriculture to an increasing extent, the choice of the commodities came as a surprise.[2] Currency reasons were given for the introduction of import control and it was therefore expected that more dispensable commodities than pigs, cattle, meat, poultry, butter, cheese would be put on the list. Of "luxury" products it included only certain tropical fruit and spirits. The editor of the *Oesterreichischer Volkswirt* claimed at the time—probably justly—that the inclusion of a number of

[1] Import permits were to be granted by the Minister of Finance in conjunction with the Ministers of Commerce and of Agriculture.

[2] See, for example, Dr. F. Klein, "Einfuhrverbote," in *Oesterreichischer Volkswirt*, 7th May, 1932.

manufactured articles was intended merely to appease the industrial section of the country which could not have been expected to favour a system which benefited agriculture alone.[1] In any case, the industrial products put on the list were of a kind tending to compete with domestic manufactures, as, for example, motor cars and tyres.

As a result of the new law imports of individual commodities could be reduced by anything between 10 per cent and 80 per cent of their value in 1931. According to the provisions of the new scheme importers would declare their demands two months beforehand and were then allotted a certain percentage of their requirements during a corresponding period of the preceding year. The list of commodities, subject to import licences, has been extended at different times within the past four years so that it comprises more than half the value of Austria's imports.

In *Bulgaria*, where the regulation of imports is carried out by the National Bank itself, import control began with the refusal of the National Bank to allot foreign exchange for a large group of so-called " luxury " products.[2] The list included such things as wooden and iron furniture, motor cars, motor-cycles, wireless sets and gramophones. In April, 1932, import permits were introduced for a further group of commodities, the most important of which were textiles, semi-manufactured and finished products.

A definite method of limitation was then devised, consisting of a reduction (in quantity) of 50 per cent of imports in 1931. This did not imply, however, that, on account of the drop in prices, importers could actually obtain half the amount of foreign exchange they had acquired in 1931, for the fall in prices was taken into consideration and the amount of foreign exchange reduced accordingly. Until 1933, this system applied only to certain listed commodities. But when during that year a strengthening of the unfavourable tendency of the balance of trade became apparent, it was applied to all import products.[3] The different provisions, all decreed by the National Bank, were codified in November, 1934, in June, 1935, and finally in April, 1936. During those three years, the system of direct, discriminating licensing gained ground. Quantitative limitations were thus increasingly replaced by exchange restrictions proper.[4]

[1] See *Oesterreichischer Volkswirt*, 24th December, 1932.
[2] See *Journal Officiel*, Nrs. 222, 223, 224, of December, 1931.
[3] Law of 31st January, 1933, retro-active from 1st January on.
[4] See Chapter XVI, p. 248, for present tendencies of the Bulgarian system of import regulation.

In *Czechoslovakia* import licences for certain agricultural products existed before the introduction of import regulation in January, 1932. Excepting these commodities, the National Bank allotted foreign exchange for all imports. Only at times was allotment refused as a measure of reprisal against other exchange control countries.

The law of January, 1932, however, provided for limited exchange allocation in the case of "dispensable" goods. The term dispensable was misleading, or at least the actual lists of goods show quite definitely that protectionist objects entered into their construction. Increased protection for cattle and flax had been desired by agriculture for some time.[1] They were included in the lists. In fact, "luxury" products, such as certain kinds of tropical fruit, caviare and furs, formed (from the point of view of their value) a very small proportion of the total amount of goods subjected to import permits. Besides ordinary food products (beans, lentils, vegetables, cattle, live animals, meat, cheese), and a considerable number of finished industrial products (including fine textiles, paper, toys, rubber goods, iron goods, brushes), the first list included some important half-finished industrial articles such as cotton, wool and silk yarns.

All through 1932, the lists were extended. Most of the additions consisted of finished products: further textile goods (31st January, 1932), electrical apparatus, gramophones (14th February, 1932), agricultural machinery (12th June, 1932) and certain raw materials: furs, asphalt and lignite. The lists grew to such proportions that it was decided in August, 1932, to issue a free list and subject all other commodities to import regulation. The free list was not large. The most notable fact about it was the absence of many raw materials and semi-manufactured goods.

It is difficult to say whether, from the point of view of the people employed in an industry, the temporary gain to Czechoslovakian manufacturers of the restricted semi-finished products (mostly textiles) was greater than the loss to those who, on account of the higher prices they had to pay for raw materials, lost internal and external markets. Contemporary articles in the Press pointed out the disadvantages to the country as a whole of not permitting the purchase, for example, of foreign textile materials while their prices were still low.[2]

[1] See *Oesterreichischer Volkswirt*, 23rd January, 1932.
[2] See F. Jellinek, *Prager Tageblatt*, 18th August, 1932.

Industry in general began to show opposition, towards the end of 1932, particularly against the restrictions on raw materials and other commodities entering directly or indirectly into costs of production. The export industries in particular objected to the existing restrictions, in the same way as they had done in quota countries.[1] This opposition seems indeed to have had some effect; the free list was extended at different times in 1933 and finally in March, 1934. Indeed the opposite process went on during 1933–4 to that which had taken place in 1932: the free list became larger and larger, so that it appeared again more convenient to publish lists of goods which needed an import permit rather than of those which did not. This was done in April, 1934.[2]

The *Danish* system of import control through permits granted by the Exchange Office (*Valutakontor*) of the National Bank began to operate, like that of Czechoslovakia, in January, 1932.[3] Of all the systems in existence the Danish import regime has been the most consistent. Except for changes in the composition of the actual lists, and in basis years, there have been few important alterations of method. In no country has there been a more searching and constant criticism of the existing import regime than in Denmark. Yet nowhere has a system remained as stable in its fundamental principles and scope as in that country. The reason must be—for Denmark is a democracy—that, with the exception of certain sections of commerce, the country as a whole is satisfied with the results of its system of import regulations. Also the opportunity in a small country for leading men in trade and industry to maintain constant contact with the administration must have resulted in a gradual perfection of the operation of control. Whatever the grievances of particular sections of the community may have been (and in the case of the co-operative organizations, for example, they were just as considerable as in other quota countries), the presumption is that they were

[1] See *Oesterreichischer Volkswirt*, 19th November, 1932. The opposition of many industries induced the Ministry of Commerce to open an inquiry, inviting suggestions regarding a change in the import system. The first to answer in this connection was the glass industry, showing a definitely unfavourable attitude to all import restrictions as such.

[2] See Chapter XIV, p. 250, on present tendencies in Czechoslovakian system of import regulations.

[3] In November, 1931, a few luxury articles (wines and spirits) had been limited quantitatively. The reason for these restrictions was the desire to take a reprisal against French import quotas.

generally dealt with at least to the partial satisfaction of those concerned.

The depreciation and exchange control law of December, 1931, established a long list of goods which would need foreign exchange permits of the National Bank during the year 1932. The entire range of Denmark's imports was divided into twenty-seven groups. It is not easy to see why the Valutakontor did not publish a free list rather than a list of the commodities needing permits for importation, for the total value of the goods shown on this list amounted to 95 per cent of the value of Danish imports in 1931. Individual importers' requirements of foreign exchange were reduced by a certain percentage, based on the value of imports in 1931; the maximum reduction was 55 per cent.[1] The law providing for import control was prolonged every year until 1935 when it was established until 1937.

The opposition of agriculture to the limitation of certain raw materials and the realization that Denmark was unsuited for the production of certain industrial articles led, in 1934, to proposals to extend the free lists. Certain fodder products and cereals were actually taken out of the list of products controlled by the National Bank, but all other products mentioned in 1934 (including malt, coffee, tea, whisky, tobacco and some industrial articles such as watches and telescopes) appeared again in the lists published at the end of 1935 and still (1937) in existence. The Valutakontor was prevented from carrying out a relaxation of control with respect to the importation of manufactured articles by the opposition of the industries and trade unions concerned.[2]

In *Hungary*, as in Czechoslovakia, a partial system of licences existed before the actual introduction of exchange control. In the case of this country licences were used (since December, 1930), in the import trade with countries which had no trade treaties with Hungary. Again (as in the cases of Bulgaria, Czechoslovakia and Denmark), it was in January, 1932, that Hungary began to control a large part of her current imports through exchange permits. At first the total value of the products subject to licence was about 40 per cent of Hungary's imports in 1930, but by 1933 the goods thus controlled made up nearly half of the total value of imports in 1930.

[1] See, however, p. 127, *infra*.
[2] See *Frankfurter Zeitung*, 13th December, 1934.

The first list consisted of luxury goods (cosmetics, perfumes, silk wear), and certain tropical fruits, a number of small manufactures, such as wireless sets and glassware, and of some raw materials. The last group included, above all, fuels, such as wood and lignite.[1] The lists were extended in March and again in June. The most important additions were textiles. By the end of 1933 three-quarters (in value) of the controlled products were textile materials, finished articles as well as semi-manufactured products. Machines and instruments were also added to the list in 1933 and 1934. Further extensions followed in 1935 until in April, 1936, the number of restricted products became large enough to make the publication of a free list practicable.[2]

With the exception perhaps of Czechoslovakia, there has been a definite tendency in all the countries considered here to include an increasing number of products in control schemes. The reason for this development has been not only the constant appeals to the authorities for increased protection, but also the natural development of a system of exchange control. Restrictions on a limited number of commodities almost certainly have two consequences, both of which create a tendency to further import restrictions.

In the first place a restriction on one commodity leads to substitution of another not yet on the list. In order to prevent increased imports of the substitute a further restriction is established.

Secondly, restrictions, in most cases, lead to either an absolute or a relative increase in the price of the commodities affected. Even if substitution of another import article is not possible the balance of trade is not improved by the full extent of the value of the reduction. Increased profitability of domestic manufacture of the restricted article is bound to lead to an increase in the prices of certain factors of production. Not all factors are able to maintain their prices, under conditions of partial employment. Costs must therefore rise somewhere in the system, and to the extent that export industries are affected the value relation between imports and exports becomes more unfavourable. Realization on the part of exchange control authorities that existing restrictions have not resulted in the

[1] The inclusion of these products was connected with the government's re-employment policy; see *infra*, p. 125.

[2] See Chapter XVI, pp. 247–8, for present tendencies in the Hungarian system of import regulation.

expected improvement of the balance of payments gives the impetus to further import limitations.

This general development does not necessarily occur everywhere in the manner indicated, but the tendency exists and serves to explain the almost universal increase in the scope of restrictions from 1931 to 1936. To what extent a change in direction may be said to have begun in the recent past is the subject of a later chapter in this volume.[1]

A number of the technical problems connected with exchange control are similar to those confronting authorities in charge of quantitative import regulations. Some of these have been discussed in Chapter VIII (the question of basis years, of the ways in which the demands of firms entering the trade after the establishment of restrictions are dealt with,[2] and of the difficulties connected with the division of imports among different countries[3]), and certain others, such as the trade in import licences, the charging of licence fees and different forms of evading existing restrictions, are dealt with in Chapter XV. All these difficulties which are inherent in any scheme of import control have generally been recognized in different countries and attempts have been made to provide for their solution. Since exchange restrictions have usually been administered with greater flexibility than quota regulations, the problem, for example, of a fixed basis year for subsequent percentage reduction has not played as important a rôle under exchange control as under quantitative import regulation. Nevertheless, it still determined in many countries the extent to which individual firms were allowed to trade and thereby led to grievances on the part of expanding enterprises.

Bulgaria, for example, still based its percentage reductions for 1935 and 1936 on the average individual demands of 1930, 1931 and 1932. In Denmark, on the other hand, the basis year was in 1935 changed from 1931 to 1934. It is highly probable that it was above all the opposition on the part of the Danish Co-operative organizations to the early basis year which brought about this change. The attitude of the Co-operatives was expressed with considerable force at a convention at Odense in the summer of 1935, where 2,000 representatives met to discuss questions of import control.[4]

What is true of the effects of a trade in licences under

[1] See Chapter XVI.
[2] Chapter VIII, pp. 102–3.
[3] Chapter VIII, pp. 84–93.
[4] Reported in the *Korrespondenz-Nordschleswig*, Flensburg, 6th June, 1935.

quantitative restrictions is also true of a traffic in exchange permits.[1] It is not this trade which tends to increase the price of the restricted product but the reduction in the quantity of the commodity concerned, a reduction which, under quotas, is a direct result of the control measure, and under currency restrictions the result of fixing the total amount which may be spent on the commodity concerned during a given period.[2] The fact, however, that importers whose permits were larger than their own demand realized special profits, when selling their import permissions, seemed to confirm the view that a traffic in licences would raise prices. For this reason the transfer of exchange permits has been prohibited in all countries under exchange control.

The Danish provision serves as an example of the highly unfavourable view taken by governments of attempts on the part of the import trade to make the whole system more flexible without fresh harm to anyone. The third part of section 7 of the law of 1935 reads as follows [3] :—

> " It shall rest with the Exchange Office, as far as possible to see that the import-licences allotted are not used in a manner incompatible with the purpose for which they were given, thereunder that materials and the like the import of which has been permitted for use in own businesses, are not used against the intention as ordinary merchandise. Sale of import-licences shall be prohibited and the administration shall see to it that sale does not take place, and shall in case of infringement be allowed to recommend to the Minister of Trade, Industry and Shipping that the person liable on the infringement be deprived of his import-right for a definite time or for ever."

Before mentioning the actual sale of a licence the law speaks of the evasion of the prohibition of trade in licences, making it also a punishable offence. But this evasion, i.e. the sale of the goods at a higher price to someone without the necessary licence, is the general practice under exchange control as well as under quota restrictions and cannot be detected.

The main problems from the point of view of trade and commerce in the operation of exchange control arise from different kinds of uncertainty. It is a mistake to believe that state intervention under all conditions decreases uncertainty from the point of view of commerce. In the days when it

[1] See Chapter XI, p. 208.
[2] See Chapter XIV, diagram on p. 208.
[3] Official Danish translation.

was the custom to send a battleship when the number of defaulting debtors in a South American country became too great, it was possible at times for the state to reduce the credit risks of its nationals. But when the state has the power to limit or control the payment of foreign obligations on the part of its nationals, certainty is reduced for the foreign creditor. Those whose activities are affected may find, and have indeed found, that the transactions which they intended to carry through and to the completion of which they have based all their calculations, are prohibited from one day to another.

This is the inevitable outcome of discriminatory licensing systems for imports. It is not the fault of the governments concerned but of the systems which they have introduced. If it has been decided within the general scheme of foreign exchange allotment to distinguish between different countries [1] or between different types of goods, variations in the treatment of different commodities or their sources of supply are an essential element of the system; for it is just this possibility of discrimination which is expected to enable the authorities to achieve certain given ends, *at a particular time.*

If, for example, a foreign country suddenly decides to restrict the exports of another country in order to make its own manufacture of the commodity in question more profitable, it may be in the interest of the exporting country to answer with a reduction in the allotment of foreign exchange for imports from the first country. The plans of certain importers and of their customers in the country which has reduced allotments of foreign exchange are bound to be upset. Losses will have to be borne, whether or not they are spread—for example, by raising the price of goods in stock if such stocks exist. The purpose of the government's retaliatory action was an attempt to improve the position of some industry in the country. But the first country might not agree to lift its restrictions in spite of the effects of the second country's reprisals. Suppose that it allows better terms on another commodity. The result is that some new adjustment becomes necessary; in the end there may not be any net losses in the

[1] Bulgaria is one of the very few countries which does not discriminate between different countries, but in which the exchange permit is made out only for the value of the order without specifying that the goods have to be imported from a particular country. See, for example, an article by M. Tschakaloff (director of the National Bank's economic and statistical research department) in *La Bulgarie*, Sofia, 26th August, 1935, where he writes: "... le système du contingentement par pays ne fut pas introduit, afin de permettre à chaque pays d'augmenter ses importations par la voie de la libre concurrence."

export industry as a whole except the costs of transfer from one line of production to another. But the original losses which arose from the impossibility of completing certain plans or processes are not made good. There is no *a priori* reason why they should be smaller than those which would have arisen had the government of the second country not retaliated. The argument, therefore, that the losses in one part of the system *had* to be incurred in order to prevent greater losses in another part does not necessarily hold good.

Uncertainty that foreign exchange will be allotted for a particular import product (as opposed to the allotment of exchange for purchases from a particular country) or that it will be allotted to the extent expected by the importer arises from the very object of a system of exchange control. The purpose of such a system is to equate the current demand and supply of foreign exchange at *fixed* officially determined rates. Divergences between demand and supply cannot be temporarily bridged either by gold movements or short-term credits. It is, of course, within the power of the exchange control authorities to bring about the extension of credits to foreign importers of a longer duration than is customary. Nor will they be opposed to *receiving* gold from abroad. But it is not very likely that a situation in which credits become necessary or where gold flows in will arise. For the fact that exchange control is maintained generally proves that without such regulation the demand would exceed the supply of foreign means of payment.

Thus, there is a tendency for the demand to be greater than the supply. It is a divergence in this direction which the monetary authorities are trying to prevent. For a number of reasons this tendency is liable to continue throughout the period of exchange control.[1] Therefore it is necessary, if the original object is retained, either to reduce the total volume of imports continually, or to vary the degree of restriction of different products.

[1] Some of these reasons are: (1) the prevention of the flight of capital may lead to increased internal expenditure. For those who feel an anxiety about the safety of liquid funds if kept at home may choose domestic expenditure as the most advantageous use of their funds once the alternative of capital export is no longer open to them. If this new expenditure implies an increase in the velocity of circulation, as it might do if the funds have come from hoards, certain prices may rise (decreasing exports) or the demand for imports may increase. (2) Increased prices of restricted products may raise internal costs either directly or through an increase in factor prices as the domestic production of formerly imported articles increases. (3) Behind the supposed shelter of exchange control the government may carry through an expansionist policy with the result of an unfavourable development of the balance of trade.

For example, if restriction of a particular product leads to a large increase in domestic production and this increase leads to a reduction of the exporting capacity of another industry,[1] it may be the best policy, in the circumstances, to ease the restriction on the first product and to tighten that on some other article. By means of this change, the same total volume of demand may be maintained, but the new restriction may not lead to the same reduction in supply through a subsequent decrease in exports. Again the expectations of an importer may remain unfulfilled. There is no way for importers to learn from experience, for a sequence of given allotments for a particular product does not entitle him to expect allotment of the same amount for the next period. In a number of countries this sort of uncertainty has been reduced to some extent by the introduction of a "limited guarantee" by the central bank that foreign exchange will be allotted for a particular commodity at some future date.[2] But it is not always possible for an importer to know his demand a long time beforehand. The tendency on the part of many importers to apply for more foreign exchange than they expect to need (because they anticipate a reduction of their demands by the authorities), gives the central bank an unreliable picture of the actual proportions of future demand for different goods.

There are no ways of finding out for which group of import products the demands are exaggerated and for which group the declarations of future demand correspond more closely to actual needs. Therefore, if the monetary authorities are in the habit of allocating the total expected supply of foreign exchange to the expected demand during a subsequent period, the proportions allotted for different types of import products must be determined to a great extent by the opinions of the authorities in charge, even if they endeavour to allocate the available supply in proportion to actual needs. From this *necessarily* somewhat arbitrary allocation a new and additional uncertainty as to the satisfaction of the needs of importers arises which is created by the differences in the degree of over-estimation of future demands between various groups of importers.

One more way in which uncertainty for commerce is increased

[1] See page 143, footnote 1, point (2).

[2] Such systems have been in use in Estonia and in Greece at various times. According to a report in *Industrie und Handel* (14th January, 1932) the positive guarantee in Greece did usually not mean very much and importers did not get the necessary foreign exchange, although they had been led to expect it.

by the existence of exchange control ought to be mentioned. Since it is generally an important object of exchange control to prevent irregular capital exports most of the central banks of exchange control countries give the actual permit to acquire foreign currencies only after the goods have been cleared through the customs. In this way an attempt is made to prevent the acquisition of foreign means of payment for the purpose of opening a foreign deposit rather than of meeting a foreign obligation. The reduction of risks which may usually be achieved by buying forward exchange is thus made impossible.

The problems confronting exchange control authorities and import trade arise out of the particular methods employed. To some extent the task of the authorities may be made easier and the grievances of commerce may be alleviated by suitable changes in the technique of the measures. But the more general effects of exchange restrictions on imports are similar to those of quantitative import regulation and indeed to the consequences of any interference with the natural flow of goods from one country to another. In the case of these effects of import control no change in method can bring about a change in the principal effects. Part of the remaining chapters of this inquiry deal with such general consequences of import regulation.

PART III

THE RESULTS OF THE REGULATION OF FOREIGN TRADE

CHAPTER XI

THE THEORY OF QUANTITATIVE IMPORT CONTROL

The main object of this chapter is to trace the general principles of the economic mechanism set in motion once it has been decided to limit quantitatively the imports of a particular commodity. The operation of this mechanism varies according to the nature of the assumptions made concerning the economic conditions under which the mechanism works. The most important differences in the results of quantitative import limitation arise from the nature of the market of the commodity in question, from the point of view of competition on the supply as well as on the demand side.

The problem of the nature of the market has three aspects. In the first place, distinction must be made between countries which constitute relatively important markets for the restricted commodity and those whose purchases of the commodity are negligible in comparison with the total volume of trade. The criterion of " relative importance " is the degree to which changes in the demand of a given country affect the price of the commodity in the " world market ". The second part of the problem arises out of the state of competition between individual importers on the one side and individual exporters on the other. The results of the quota are different if monopoly exists on either the import or the export side. Thirdly the effects of the quota depend on the market position of the protected industry. The question is again whether the quota protects a monopoly or a large number of competing producers.

The theoretical analysis of the effects of quotas are set forth in technical language with the help of diagrams of the ordinary partial equilibrium type, and readers who do not wish to follow the various steps of the analysis are referred to the conclusions on pages 157–160, 162, 166–7, from which subsequent sections can be followed. Effects of quotas under competitive production in the home market are dealt with first because they supply the most important case.

(a) *The global import quota*

CASE 1:—*Competition among importers; competition among exporters.*

Assume that the commodity is produced and consumed in both countries. The left side of the diagram (Figure 1) [1] illustrates demand and supply conditions of the commodity in question in the importing country (D′D′ = demand curve, S′S′ = supply curve), the right side illustrates the same for the exporting country, i.e. the rest of the world. Had there been no trade between the two countries the commodity would have sold at

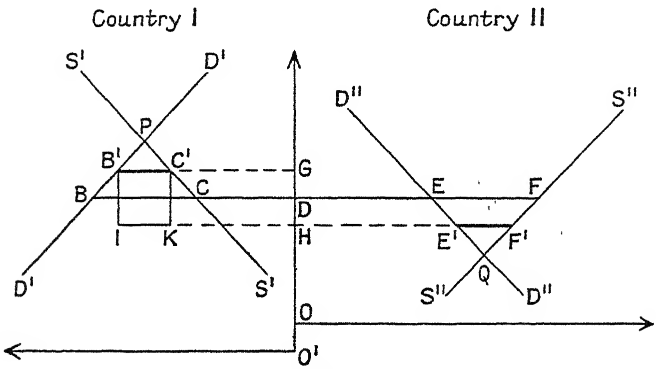

FIG. 1.

P in the importing country, at Q in the exporting country. Trade between the two areas established price at D. O lies above O′ in order to take care of transport costs and other regular charges. Without intervention on the part of either of the two areas, BC would have been imported and CD produced by country I; EF (= BC) would have been exported and DE consumed by country II. Now a quota is introduced, stipulating that only the quantity B′C′ (< BC) may be imported into country I. This reduces legal exports of country II to E′F′ (< EF).

In *country I*: price rises to G
total sales fall to GB′
internal production rises to GC′
In *country II*: price falls to H
internal consumption rises to HE′.

[1] The particular method of illustration used has been developed by Häfner in his excellent article, "Zur Theorie der mengenmassigen Einfuhrregulierung," *Weltwirtschaftliches Archiv 1935,* vol. xvi, March 1935, Heft 2, pp. 190–223.

The difference in price between the two countries has risen to GH.[1] On the assumption that the rate of trading between the two countries has remained the same, i.e. that there has been no sudden speculation, and that, if licences have been given to the importers, all such licences have been used, importers will have had to pay O'H per unit, will have sold at O'G per unit, and therefore have realized as a group B'C'IK as extra profit.[2]

CASE 2:—*Monopoly on the import side; competition among exporters.*

There are two reasons for inquiring into this case. First it is necessary to find out whether in connection with a system of licensing it would ever pay not to use all the licences, if they have been acquired by one single organization. Secondly it is necessary to find out what happens to the price and quantity of the imported commodity if the entire importing trade has been in the hands of a monopolist even before the quota was introduced. The analysis is carried out on the basis of the results obtained in recent years by the students of imperfect competition.

First consider the case where it has been possible to establish an importers' organization (comprising all those to whom licences have been allotted) or the similar case where *one* importer by virtue of a trade in licences has secured all licences in circulation. Complete importing monopoly in the domestic market can only be achieved if there is no home production.

In the diagram below, AR (average revenue curve) is the demand curve for the commodity in question in the importing country; AC (average cost curve) is the supply curve confronting importers in the same country. Without restrictions a quantity ON would have been imported at price P. The introduction of a quota OL changes the supply curve AC to the new curve AST. Under conditions of competition on both sides, importers would now purchase quantity OL at price OB', sell at OE' in the domestic market and make as a group an extra profit represented by the rectangle E'P'SB'.

Now assume the import trade to be monopolized. The monopolist importer will import a quantity corresponding to the

[1] On the assumption that the positions and shapes of all curves have remained the same, it is clear that a tariff GH would have brought about the same results concerning relative prices and quantities consumed and traded.

[2] In the case of a tariff HG, B'C' IK would have represented the revenue to the state.

point where his marginal cost curve MC (changed to ART by the introduction of the quota OL) cuts his marginal revenue curve MR. He will thus import a quantity OQ and sell it at a price P″. The monopolist's profits are represented by the figure GHA, and his costs by OAHQ. If the import trade is monopolized, less than the quota will be imported as long as Q (determined by H) lies to the left of L. If MR cuts the marginal cost curve ART in its RT section the full quota will be imported.

The case where Q lies to the right of L corresponds to the effects of a quota introduced under conditions of monopoly, i.e. the case where even before the introduction of the quota the import trade has been in the hands of a monopolist. OQ in

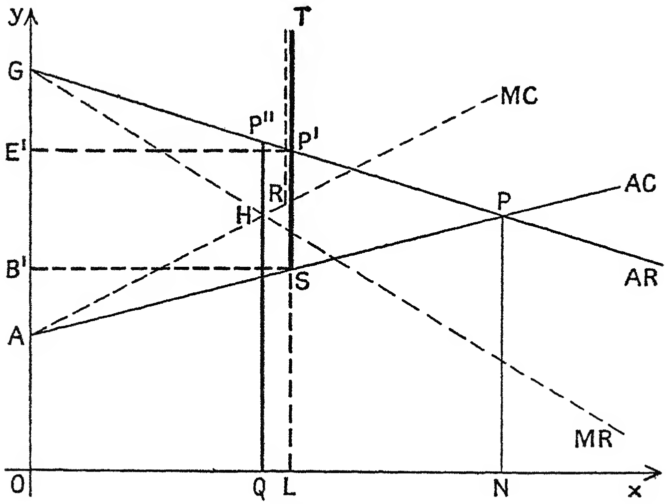

FIG. 2.

Figure 2 is the quantity imported before the introduction of the quota. If the quantity of imports is to be limited by a quota, L must lie to the left of Q. The price which the restricted number of consumers has to pay will be still higher than before the quota, but the profits of the monopolist importer have decreased. Thus in this case it will never pay to restrict imports more than is done by the quota itself.

CASE 3:—*Free competition among importers; monopoly on the export side.*

The situation on the export side is parallel to that in the importing country. The case of the effects of a quota on relative

prices in the two countries and on quantities produced and consumed has already been considered (Case 1). It remains now to deal with the two possible cases of monopoly in the exporting country. In the first place, it is possible that even before the introduction of a quota the export trade in the commodity concerned was in the hands of a monopolist. Secondly, it may be that as a result of a licensing system under which the right to issue licences has been given to the exporting country, exporters form an export selling organization or one exporter has secured all licences. First consider the case where there is only *one* exporter before the establishment of the import restriction. The diagram below (Figure 3) shows the situation in the exporting country. ES is the total supply curve, FD_I the

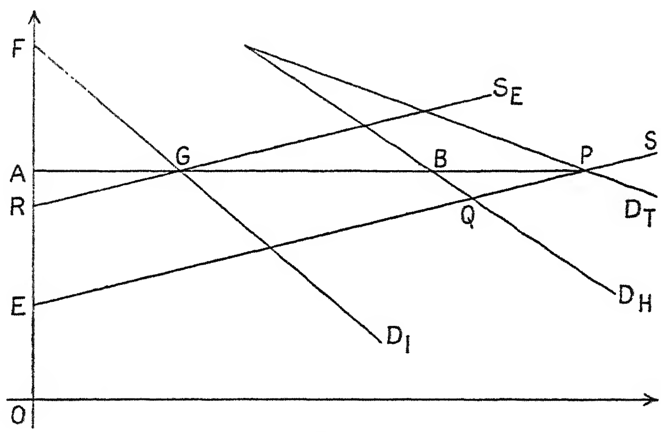

FIG. 3.

demand of the importing country, D_H the home demand and D_T the total demand. At price P, AB is consumed at home while AG is exported. The supply curve (SE) to exporters is equal to the total supply minus the home demand at a given price. At a price Q the total supply is sold in the home market. At prices higher than Q, part of the supply becomes available for export. Figure 4 shows changes in prices paid and quantities taken when the export trade is monopolized and a quota introduced.

If the export trade is monopolized ON instead of OM is exported, ON being determined by the point of intersection (H) between MR (Marginal Revenue curve) and MC (Marginal Cost curve) to the exporter. The foreign price rises to P′, the domestic

price falls from P (corresponding to G in Figure 3) to R. Since the quota is introduced in order to restrict the quantity imported it will be fixed at a point to the left of H (Figure 4). The quota reduces the amount exported from ON to ON′, raises the foreign price from P′ to P″ and lowers the internal price from R to R′. Thus, where monopoly has existed before the introduction of the quota it is of no consequence to consumers in the importing country whether or not the export trade is monopolized. If a quota is introduced under competition among exporters, the

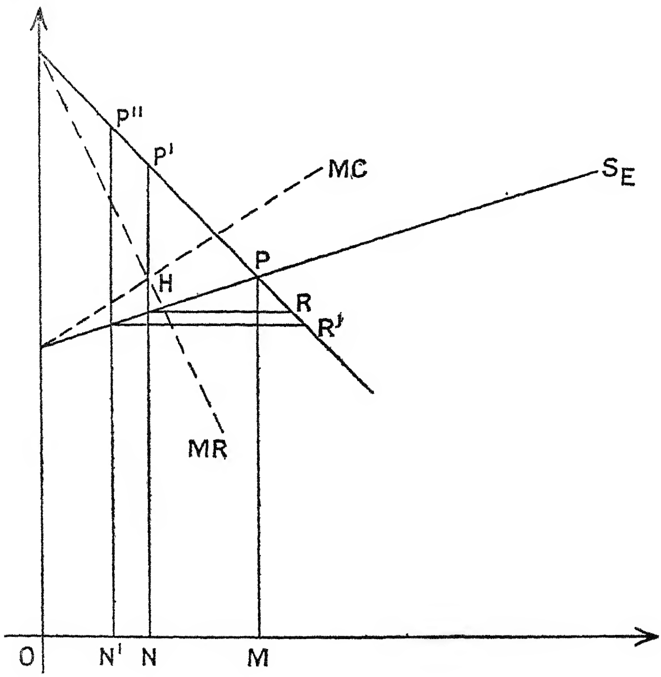

FIG. 4.

quantity permitted into the importing country may be larger than that which would maximize the profits of a monopolist exporter. Thus if the quota is fixed anywhere between points H and G (Figure 4) it would pay a monopolist exporter to restrict exports below the amount fixed by the quota and the quota would become ineffective.

If through a foreign licensing system or for other reasons an export monopoly is founded in the producing country, the quota only sets a limit to the quantity of goods exported but does not

actually determine it. The commodity in question will be exported up to the point where Marginal Revenue curve of the monopoly exporter cuts his Marginal Cost curve. It is therefore quite possible that exports are reduced below the quota in the case of the establishment of monopoly *after* the introduction of the quota.

(b) *Quota and tariff combined*

Quantitative limitations are rarely the only restrictions placed on the imports of a particular commodity. Frequently the existing tariff was retained when the quota was introduced, or tariffs and other fees have been charged at the same time. In almost all cases of quantitative restrictions importers were obliged to pay a certain amount, either per unit of imports or in the form of a lump sum for their import permissions.[1] What are the effects of such extra payments ? Do they restrict imports more than the quota or have they no influence on the amount imported ?

Tariffs in combination with an import quota are the most usual and important form of such extra payments. The analysis will therefore be carried out with this kind of unit payment in mind. Under conditions of free competition it does not matter whether licence fees are charged per unit or in the form of a lump sum. A lump sum may be spread over all the items imported and can thus be treated in the same way as the payment of a fee or of a specific tariff per unit.

The diagram below (Figure 5) is constructed on the same lines as that used to illustrate Case 1.[2] Before the introduction of the quota country I imported BC (= EF) ; a quota B′C′ (= E′F′) is established raising the price in the importing country from O′D′ to O′G, and lowering it in the exporting country from OD to OH. Then, without changing the fixed amount of the quota, the government introduces a tariff HK. This tariff raises the unit price payable by the importer from O′H to O′D. The profit per unit LC′ is thereby reduced to NC′; extra profits for importers as a group from B′C′LI to B′C′. CN. The tariff has absorbed part of the extra profit, but the equilibrium price per unit is still determined by the quota. For it would not pay the individual licence holder to restrict his imports on account of the new tariff payment. If he reduces the number of units he may import, i.e. if he does not use his licence fully he will reduce

[1] See Chapter XV. [2] See p. 150, footnote 1.

his profits, for the profit on each unit is higher than the tariff payment. If the tariff is raised to the entire difference between the domestic and the external price, the importer will not obtain any extra profits. If the tariff is raised above the price difference, i.e. in our diagram from HK to H′K′, the tariff will restrict imports more than the quota. To what extent the new price in country I will be higher than the price established before the tariff was raised above the price difference created initially by the quota, depends not only on demand and supply conditions at home but also on the influence which changes in the demand of country I for country II's products have on their price in country II (i.e. the world price). In equilibrium quantity B″C″ (= E″F″) is imported into country I, purchased at a unit price

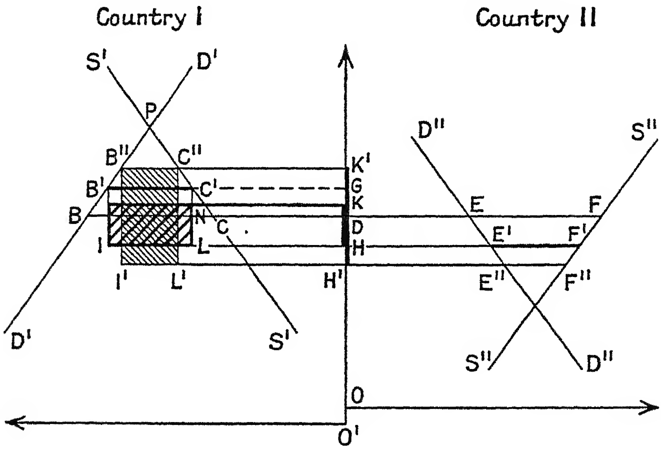

FIG. 5.

(exclusive of tariff and transport costs) of OH′. Total tax revenue to Country I has changed from IL × LN to B″C″L′I′. Thus, once the tariff is raised above the difference created by the quota between the domestic and the external price, it alone determines how much will be imported and at what price.

If imports are monopolized it is necessary to distinguish between a tariff or a licence fee per unit and a lump sum payment. The situation is similar to that of a tax on monopoly sales per unit of output and a lump sum tax on gross receipts. The profits of the monopolist importer are reduced in either case, but while in one case he will raise his price, in the other case he will find it advantageous to stay at the same position.

In Figure 6 the monopolist importer imports OL of a quota OQ at a total cost of OCHL and derives a profit BCH by selling this quantity (OL) at a unit price LG. If a tariff CF is placed on each unit imported the monopolist's cost curve AC is moved up to FA′C′ and his marginal cost curve to FM′C′. The latter cuts his marginal revenue curve (MR) in H′; he will reduce the quantity imported to OL′ and sell it at a unit price L′G′. His profits have been reduced from CHB to FH′B. If the monopolist is charged a lump sum fee on his gross receipts he will not reduce the quantity imported. His profits are largest if he sells quantity

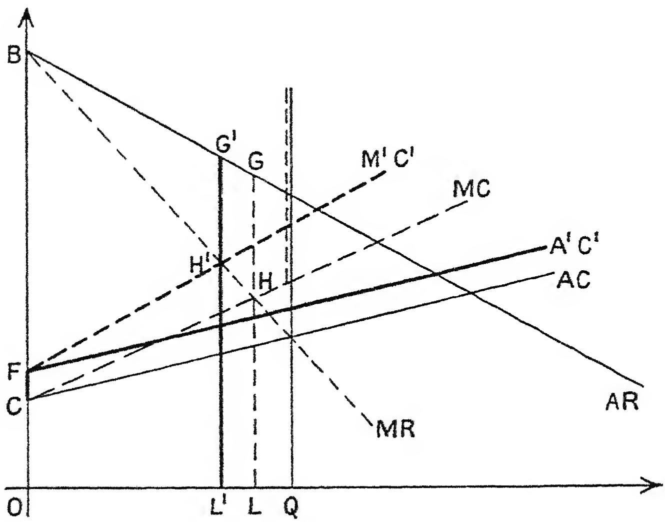

FIG. 6.

OL. The payment of any lump sum fee will leave him in the most favourable position if he remains at the point where his profits (from which he pays the lump sum tax) are highest.

The main results of the theoretical analysis so far are :—

1. If there is competition in the importing as well as in the exporting country, the quota will be fully used. The restriction of the importable quantity will lead to an increase in price in the controlling country and to a decrease in price in the exporting country. If licences are issued to importers, the presumption is that total extra profit which arises from the difference between the internal and the external price will go to the importers.

Note on the internal distribution of special profits and the trade in licences :

It has been claimed that the real reason for the extra profit is not the restriction of the supply but the fact that by virtue of the import licences competition between importers has been destroyed. The reason for the higher price is however not the absence of competition but the fact that each holder of a licence specifying a definite quantity knows that by decreasing his price he will not be able to increase his turnover as he will not be permitted to import a larger quantity. The new price of the restricted article *is* the price which corresponds to the total exchange on the basis of an unchanged demand curve and a restricted supply. The total profit of all importers will be the same (*ceteris paribus* on the export side and with respect to internal demand) if no licences are issued. In this case the quantitative distribution of sales between individual importers will be different. Some importers may be able to import a larger share of the total quota than they could under a system of licences allotted in proportion to individual imports in former years. Looking at the situation from a dynamic point of view it may well be that the importer who has managed to secure a particularly large share of the quota does not wait until a general price has been established but sells at a price which would have turned out in the end to be too low. Yet the fact that he has secured a large share means that the imports of some others must have been particularly small. The profit per unit for these importers, therefore, will tend to be higher in their section of the market. The average profit per unit may not be the same as in the equilibrium situation illustrated by the diagram. For in the actual event it is always possible that different prices should rule for the same commodity in the same market. Competition among licence holders still exists and only imperfect knowledge may at times reduce (or increase) the price of the restricted article below (or above) its new equilibrium level. To the extent that some consumers may purchase the commodity below the equilibrium price, they " gain ". It is thus formally true that the profit (including such possible " gains " on the part of consumers) will always be the same whatever the technical method of quantitative restriction.

A similar argument has been used in the case of the trade in licences. It has been claimed that this trade increases prices of quantitatively limited import articles.[1] As a result of import licensing in proportion to imports in former years some firms found their licences too small, while others were unable or unwilling to use to full extent licences allotted to them. Now, if as a result of the restricted supply, the price of the import commodity in question rises in the controlling country, licence holders will be able to sell import permits at a price corresponding to the difference between the internal and the external price.

Assume that all those unwilling or unable to import themselves sell their licences immediately after the introduction of the quota to those who want to import more than their own licences would permit. In such case where the total importable quantity is not restricted, the total amount paid over to those selling licences (unless losses are to be increased) cannot exceed the product of the difference between the foreign price and the price which consumers are willing to pay for the restricted quantity and the number of units specified on the licences transferred. If the licences had remained in the hands of the original holders this amount would equally have been spent by consumers. There is no reason in the world why the original holders, had they imported themselves, should have sold their commodities at a lower price. There is as little reason for the belief that the importers who had been obliged to acquire licences

[1] For examples of statements to this effect and governmental measures attempting to prevent such a traffic, see Chapter XV.

from other importers should have sold at a lower price if the additional licences had been directly allotted to them. Short of a system of rationing, which might conceivably have been introduced by co-operative societies or similar organizations, the equilibrium price of the commodity in question cannot be higher than if no importer had to resort to the purchase of licences from other importers.

There are two cases, however, in which a licencing system may lead to a price higher than the new equilibrium price more easily than a quota without licences. The first of these is transitional. The second may be of a permanent nature. In both cases it is not the trade in licences which raises the price above the new equilibrium level, but further restrictions of imports meeting an unchanged demand.

If licence holders realized that by failing to use up their import permits they may increase the price of the import commodity and therefore sell their licences at a higher price than they could obtain if they sold them immediately, the price *will* be higher than would correspond to the quota restriction. Once the licences are transferred to their new owners the increase in the supply must, however, depress the price below the level which would have obtained if no licences had been issued or if no trade in licences had taken place. In this case the losses have to be borne by those who purchase additional licences. If (in spite of the period of time which has elapsed) the entire quota can still be used during the period for which it is fixed, the average price will not have been higher than it would have been without the trade in licences.

The second case is found where the existence of licences makes it possible to establish an import monopoly, and where the point of maximum profit to the monopolist importer corresponds to a quantity imported which is smaller than the quota. Again the price rises above the equilibrium level on account of a further restriction of imports which may be of a permanent nature if the import monopoly can be maintained.

2. If there exists complete monopoly either in the importing or exporting trade the effects of the quota depend on the time when such monopolies are established. If monopoly existed *before* the introduction of the quota, the restriction will not induce either a monopolist exporter or a monopolist importer to restrict transactions below the limits set by the quota. Though the domestic price will rise in the one case and decline in the other as a result of the quota, the existence of monopoly will not increase or decrease the price further than the introduction of the quota. If, on the other hand, monopoly is established *after* the introduction of an import quota, transactions may be restricted even below the limits set by the quota. Thus, if an import monopoly is formed, even less than the quota will be imported if the maximum quantity fixed by law does not allow for a maximum profit to the monopolist importer. The higher price in the importing country after the introduction of a quota therefore can be partly deduced from the existence of monopoly only in the case where an importing monopoly has been established after the quota has come into operation. Similarly, if an export monopoly has been in

existence before the introduction of the quota, the higher price in the importing country is only due to the quota restriction and not to imperfect competition on the exporting side. But if it is found convenient to establish an export monopoly *after* the introduction of the quota and if the quota is larger than would correspond to the maximum profit to the exporter, it is the existence of monopoly which is responsible for part of the increase in price.

Note on the distribution (international) of special quota profits :

In the monopoly cases considered, the special profits which arise from the higher price in the importing country and the lower price in the exporting country accrue to those who have been able to monopolize the trade in the restricted commodity. The chances are that monopoly may be achieved in the country which issues the licences. If monopoly does not exist in either country the profits will tend to go to the traders in that country which issues the licences. If, for example, licences are issued in the importing country, exporters can sell only to those who hold import permits. The latter are therefore in a better bargaining position.

3. If imports of a given commodity are limited quantitatively and charged a tariff per unit at one and the same time, the tariff does not determine the quantity imported so long as it is fixed at a level below the difference between the foreign and the domestic price of the commodity in question. As long as the quota restricts imports more than the tariff (where it applied without the quota) the tariff merely reduces the extra profits accruing to importers. The same is true of licence fees or lump sum payments for import permits as long as importers are competing among each other within the fixed quota. If, however, the tariff is high enough to restrict by itself the quantity imported by more than the fixed quota, the tariff alone is effective ; the quota has no influence on the quantity imported nor on the unit price of the import commodity to consumers. The effect of the tariff or licence fee per unit of import commodity, however, will change quantity imported and price charged by a monopolist importer. Though equally reducing the profits of the monopolist importer, the latter will be able to charge a higher price by decreasing the quantity he imports not only below the quota but below the level imported by him before the unit tariff was introduced. If the government intends to tax the profits of a monopolist importer it must charge him on the basis of a lump sum. In this case the monopolist will still derive his maximum profit by importing the same amount as before.

(d) *The Tariff Quota*

The technical structure of the tariff quota has been discussed in Chapter VII.[1] The economic effects of this method of import restriction can now be stated theoretically.

It is assumed that both production and trade are carried out under competitive conditions in the two countries. The diagram below is constructed in the same way as that used above for Case 1.[2] The left side illustrates demand and supply conditions in the importing country; the right side those in the exporting country. Under conditions of free trade between the two areas Country II exports RS (= VW) to Country I and consumes ZR at home of a total production of ZS. A quota B′C′ (= L′M′) is

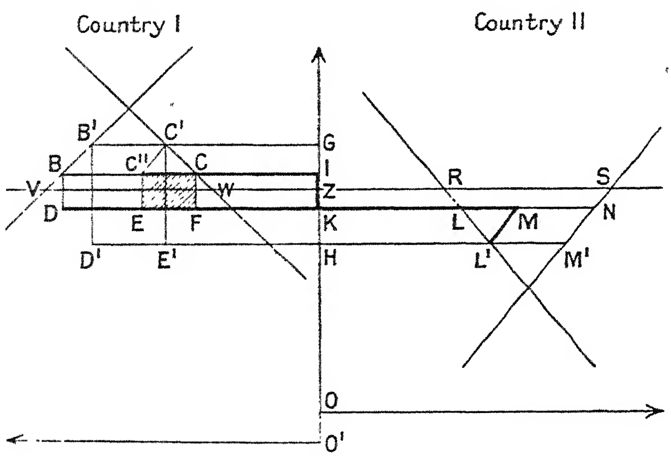

FIG. 7.

introduced resulting in a price difference of GH and a special profit accruing to importers as a group represented by D′E′C′B′ (under the assumption that importers hold the licences). For imports beyond the quota B′C′ a tariff IK has to be paid per unit of the commodity concerned. Goods in excess of the fixed quota will be imported until the difference between the external and the internal price per unit of the quota is equal to the tariff. In the diagram imports will increase from B′C′ to BC (= LN), i.e. an increase of C″C (LM). In the exporting country the price is raised from OH to OK, in the importing country it falls from O′G to O′I. After this change in the price difference, BC″ED is

[1] See pp. 77–9. [2] See p. 150, footnote 1.

the profit of the importers on the quota, C″CFE represents the tax revenue.

Concerning the effects of the tariff quota it may be said:

1. If the tariff on imports in excess of the free quota is fixed (with licences) at the same or a higher level than that which corresponds to the unit profit on the quantitatively limited amount, additional quantities of the commodity concerned will not be imported. This is so because,

   (*a*) Those who do not hold licences would not be able to make any profit at all unless the tariff is smaller than the difference between the domestic and the foreign price.

   (*b*) Licence holders would not be able to gain even if they spread the tariff payments on additional units over the entire amount imported. Although an individual licence-holder might be able to sell more units on the domestic market if he reduces his price all around (thus covering the loss on the taxed proportion of his imports by his extra profit on the "free" imports) he will reduce his profits by having to spread a greater amount of tariff payments over his fixed total profits. A further development, though one over which he has no control, will reduce his profits still more: the fall of the domestic price as more goods come into the country and the rise in the foreign price as exports increase.

2. In the case of a tariff quota without licences the situation is similar. Imports will continue only to the point where the difference between external and internal price is equal to the tariff. Equilibrium might however not be reached as smoothly or as quickly as in the first case. For under a regime of licences each importer knows that with given prices at home and abroad he may expect a definitely fixed profit. His action will be directed, therefore, towards the maintenance of this profit. If he cannot count on a definite profit he may at times import beyond the point where the tariff is equal to the profit on "free" quota imports in the hope of covering his present losses by further quota imports in the near future. In practice, however, licences under the tariff quotas have been the usual practice, so that the former conclusion that no imports will take place in excess of the quota after the point has been reached where the tariff is equal to the difference between the foreign and the domestic price is still the most general case.

The general assumption in all the preceding section was the existence of competition among producers in the home market. What of the case where the quota is introduced to protect an existing monopoly? The main question which is of interest in this connection is whether and to what extent it is possible to maintain or increase the production in a monopolized industry by quantitative protection.

The diagram (Figure 8)[1] illustrates conditions in an industry which enjoys a monopoly position with respect to domestic

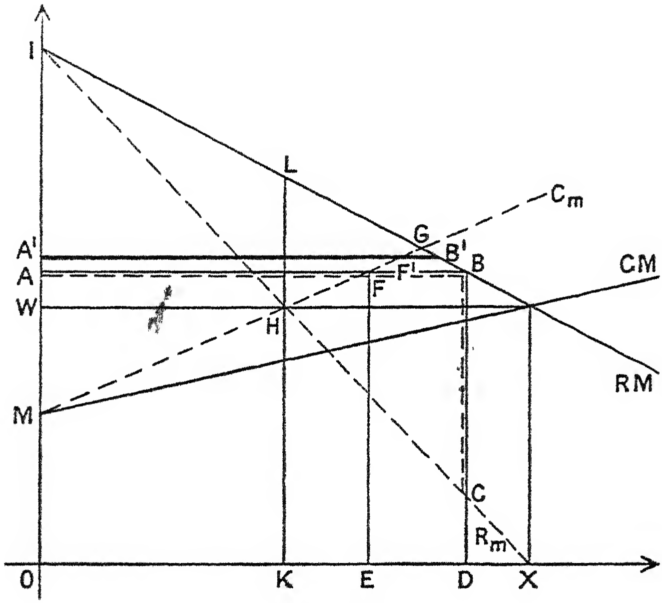

FIG. 8.

production, but which has to take into consideration imports at the world price. RM is the demand curve in the importing country, and CM the supply curve. If production were carried on on a competitive basis OX would be produced at a price OW. Since in the country under consideration production is monopolized OK only is produced, a quantity corresponding to the point H where the monopolist's marginal cost curve C_m cuts his marginal revenue curve, R_m. If the monopoly were

[1] The following analysis owes much to an article by P. Fontigny in the *Bulletin de l'Institut des Sciences Economiques*, Louvain, May, 1936.

complete, i.e. if the commodity were not produced abroad, the monopolist would sell this quantity at a unit price KL, make a profit IMH and incur the costs OMHK. The commodity is however produced abroad and may be purchased in the country concerned at OA. The monopolist's internal demand curve is changed therefore to ABRM; his marginal revenue curve to $ABCR_m$. The monopolist will extend his production to OE (F = point where his new marginal revenue curve $ABCR_m$ cuts his marginal cost curve C_m). At price OA, ED will be imported and OE produced at home by the monopolist.

In order to see the effects of a quota more clearly let us first inquire into the consequences of a tariff. If imports take place at all, a fall in the foreign price will decrease the production of the monopolist. For as AB moves downward (from point G) $ABCR_m$ will cut the marginal cost curve farther to the left. A tariff, illustrated by an upward shift of AB to A′B′ would, therefore, increase domestic production from AF to A′F′. The increase for the domestic market will proceed until a possibly rising foreign price or the level of a tariff has reached point G. The important result of this analysis is that by a judiciously applied tariff monopolist production may be increased.[1]

What happens in the case of a quota? In the first place a quota will be introduced for protectionary reasons only if imports have increased or are expected to increase. Assume that as a result of a fall of the world price imports have risen and the monopolist has found it advantageous to curtail his production.

This is illustrated in the diagram, Figure 9. Before the fall in world price, AM was produced at home (at a cost OWMZ and profits AMW) and MB was imported. The fall in the world price from OA to OD reduced monopolistic home production to DF while imports rose to FE. In an attempt to bring back home production to its former level the government introduces a quota equal to the former quantity of imports; NE (quota) = MB (former imports). This means that the competition from abroad which the monopolist has to consider has been quantitatively limited. While formerly the demand curve confronting him became infinitely elastic at the world price B → A or E → D, it is now infinitely elastic only to the extent of the quota. For any quantities to be consumed in excess of the quota he is confronted by the original demand curve. In other words the

[1] See also Joan Robinson, *Economics of Imperfect Competition*, chapter xiii.

original national demand curve relevant for the monopolist producer has been shifted to the left by the amount of the quota. PNERM is the new domestic demand curve confronting the monopolist producer. To this new average revenue curve corresponds the marginal revenue curve (for the domestic market) $PQNESR_m$. The latter cuts C_m in R; the monopolist reduces his production from OH (= DF) to OL (costs: OWRL, profits: PRW). Quantity OL may however not be sold at a price G, since NE comes in under the quota. The entire quantity

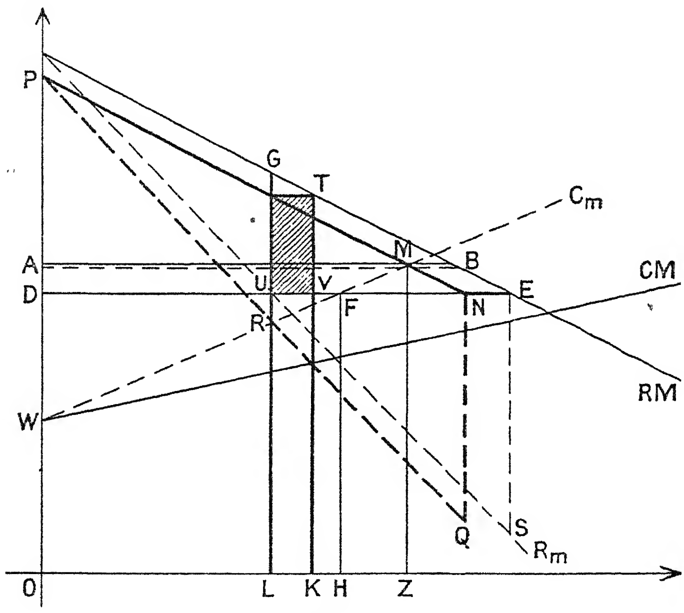

FIG. 9.

supplied is therefore OL + NE, selling at a unit price T (LK = NE). Importers may purchase this quantity at price OD so that they realize as a group a profit TV × LK.

It will be noticed that in the present diagrams (Figures 8 and 9) the world price has been assumed to be independent of changes in the demand of the controlling country, i.e. the restriction of imports by FN has not depressed the price OD. If the price does fall as a result of reduced exports, importers will realize a higher profit, but such a fall in the price will not influence the action of the monopolist. His policy depends on the extent to

which the marginal revenue curve is raised, i.e. to what extent the elasticity of the home demand curve becomes less than infinite; and this depends on the shape of the total demand curve and the quantity of imports which may enter the country.

A fall in the world price *will* influence the extent of his total production if previously he has sold part of his production abroad. The monopolist producer will export part of his production if his marginal costs for units of output beyond the quantity which gives him the highest profit at home (under conditions of a quota) are lower than the world price. Before the introduction of the quota it paid the monopolist producer to sell his entire output at home, i.e. he continued to produce up to the point where his marginal costs were equal to his marginal revenue curve (= to his average revenue curve = foreign price). In the diagram (Figure 9) he produced and sold on the home market a quantity represented by DF. The introduction of the quota NE shifted his demand curve to the left so that his new marginal revenue curve necessarily cuts his rising marginal cost curve at a point *lower* than F, the foreign price. Under the assumption that the foreign price has not fallen as a result of the restriction, the monopolist's marginal costs will lie below the foreign price until quantity OH is produced. Abstracting from transport costs he would thus be able to increase his profits by an amount represented by the area of the figure RUF. Therefore if he produced the additional quantity UF he will not have decreased his production below the level obtaining before the quota. But the introduction of the quota (limiting imports to their amount before the fall in price) will not have induced the monopolist to produce as much as he had done before the price had fallen. The theoretical condition that the monopolist sells part of his production abroad is that the foreign price remains above marginal costs for units of output produced in excess of the quantity which when sold on the home market gives him the highest profit.

Resuming the main results of the inquiry into the effects of quotas under conditions of monopolistic national production the following conclusions can be drawn:—

1. Different types of import restrictions although restricting imports by the same amount, evoke different actions on the part of the monopolist producer. A tariff if fixed at a lower point than would correspond to the level where the monopolist satisfies the entire internal demand (i.e. where it pays him best to sell that quantity which

the home market absorbs at a price equal to the foreign price plus the tariff) causes the monopolist to increase his production beyond the point where it stood before the application of the tariff.

2. A quota which restricts imports to the same amount as the tariff decreases the monopolist's output for the home market.
3. A quota which restricts imports to the same level (or to a smaller or greater level than that) which obtained before a drop in the foreign price (i.e. the price at which imports enter the country) will not induce the monopolist producer to bring his output back to the old level.
4. Unless the foreign price falls below the additional cost of units of output produced in excess of the quantity which gives the monopolist the highest profit on the home market, it will pay the monopolist to export part of his production. If the monopolist has accurate knowledge of his demand curve it may be expected that he will attempt to keep this extra quantity off the home market. In practice, however, it may be to the advantage of the importers to come to an arrangement with the monopolist in the case where the latter might find it profitable to sell additional quantities abroad.
5. The more a country is dependent on foreign imports the rarer will be the situation described in point 4.
6. The general result of the protection by a quota of monopolistic home production will be a decrease rather than an increase of production. Therefore, once a fall in the foreign price (i.e. the price at which imports come into the country) has induced the monopolist to reduce his production, a government would have to introduce a tariff instead of a quota in order to induce the monopolist to increase production to the former level and thus re-employ those national resources whose unemployment was to be prevented by the protective measure.

This closes the theoretical inquiry into the effects of quantitative import restrictions. The next chapter seeks to verify to some extent the conclusions.

Chapter XII

THE EFFECTS OF QUOTAS ON TRADE, PRICES, AND PRODUCTION

In a world whose economic fortunes and misfortunes are inseparably bound up with the exchange of commodities among its component parts, any interference with, as much as any change in, the character and extent of such exchanges will in some way or other affect all forms of economic life. Therefore, however difficult it may be to allocate a particular cause to given visible effects, only a general consideration of the development of world trade and of economic conditions in the area whose foreign trade has been quantitatively controlled during the last five or six years would really do justice to the influence which quota regimes have had on the economy of the world. Since the present inquiry is primarily concerned with the particular methods and more immediate effects of import regulation, the task will be limited mainly to a consideration of those results of quota restrictions which directly affect traders, producers, and consumers in the countries immediately concerned.

Quite apart from the occasional inefficiency in the administration of quotas, a large number of ways and means have been intentionally created by which a fixed quota may be exceeded. Without access to a large number of official documents it would be impossible to state what the reasons were for given cases of excess of imports beyond the fixed quota. On the other hand, many countries have found that the imports of restricted commodities have been at times below the quantity fixed by a particular quota restrictions.[1] Furthermore, the possibility of

[1] Imports into Greece during the first six months of 1932 which attained a higher or lower level than that fixed by quotas. The import goods are arranged according to units of description :—

Greek Imports during First Six Months of Restriction

	Heads.	*Kilogs.*	*Pairs.*	*Meters.*	*Pieces.*
Quota fixed	309,820	211,642,400	4,500	25,250	2,790,705
Actual Imp.	399,166	211,107,321	3,456*	126,000	4,167,023
	+ 89,346	– 569,579	–1,044	+100,750	+1,376,318

The decline of more than the quota affected wollen goods, dyed yarns, cotton, chemicals, iron goods and certain food products.

changes in demand of one country for the products of another may result in a net reduction of foreign trade independent of import restrictions themselves or their secondary effects. For all these reasons it is difficult to state to what extent the decrease in the foreign trade of quota countries may be attributed to existing quota measures.

In general, quotas have depressed the volume of foreign trade since the cases where quotas have not been used fully (even in the absence of monopoly) are rarer than those where imports would probably have been higher in the absence of restrictions. But it is also true that—

(*a*) the restrictions did not bring about that decline of world trade which the official percentage reductions would lead one to expect, and

(*b*) the total decline was not due to quotas alone since in some cases imports have actually been lower than the amount which could legally have entered the particular country.

The fact that quotas have reduced international trade below the level which would have been attained in their absence, seems to imply that the main object of the restrictions, i.e. the maintenance of the existing character and extent of national economic activity, has been achieved to some extent. In so far as the menace to domestic production arose from imports at cheaper prices it has been diminished considerably. Prices in the important quota countries of Western Europe have been maintained for a long time at a relatively high level.

Even in the comparatively simple case of a quota and its immediate effects on the domestic price of the restricted article, a number of reservations concerning the interpretation of actual price changes must be made. As in every attempt to verify the conclusions of theory by empirical data, the absence of the *ceteris paribus* condition calls for some caution. Although the price of a particular commodity may rise after the application of a quota, this change does not necessarily take place in response to the restriction, or at any rate the *degree* of the change may not be entirely attributable to the quota. Demand may have increased independently in the meantime, either as a result of the imposition of a quota on another product or of a change in tastes. In the case of an important country, the price of the particular commodity may thus have risen even without the quota so that the existing visible change cannot be entirely attributed to quantitative control. Though at the beginning of a particular quota restriction the difference between the old and the new price

may be entirely due to the restriction of domestic supply, a subsequent increase, say in the prices of raw materials, would have raised the price in any case. An increase in the foreign price of a restricted commodity—contrary to a prevalent view—will not raise the domestic price.[1] But the change from the pre-quota price to the existing price may no longer be regarded as due entirely to the quota since it would have gone up to *some* extent without the quota.

The fact that prices of restricted commodities do not rise absolutely or are not maintained at a higher level does not invalidate the theoretical conclusions. Particularly during a period of decreasing incomes, the chances of decreases in demand [2] are very considerable. Whether the quota is still effective under such conditions could only be determined by referring to the foreign price. Often it is not possible (except by private inquiries from the importers) to find a quotation for the foreign price of exactly the same commodity. Prices of restricted commodities may not rise immediately after the imposition of the quota since the restriction of the domestic supply may not become effective immediately. In anticipation of a quota importers may have increased their foreign purchases, as in fact they frequently did,[3] without putting the whole quantity on the market before the establishment of the quota. Thus, while an increase in the price of a restricted commodity may easily give rise to a *post hoc propter hoc* argument, the failure of prices to rise does not invalidate the theoretical conclusions.

(*a*) Prices under Quota Restrictions

A few examples of individual price changes may be useful. For the reasons given above, examples of absolute increases in different quota countries without reference to the prices of equivalent products in other countries are of limited value.[4]

[1] This will only be the case if the foreign price rises *more* than corresponds to the initial increase in the domestic price which resulted from the quota.

[2] I.e. shifts of the demand curve to the left. In practice though prices could be raised at the beginning of the operation of a quota, producers had to come down again as internal purchasing power declined. The case of certain basket and wicker goods in Switzerland, prices of which first rose by 5–10 per cent when the quota restriction was tightened, but fell again during the first half of 1935, may serve as an illustration. See XIth Report, published in *Bundesblatt*, 18th September, 1935, vol. ii, official document 3292, p. 262.

[3] See p. 82.

[4] For incidents of such increases in price, see subsequent sections on "monopoly and quotas" (pp. 234–5) and "trade in quota licences" (pp. 176 ff., Chapter XV). An informative list of price differences between French internal and foreign export markets for maize, oats, beef, mutton, pork, butter, eggs, coal and coke, may be found in Haight, op. cit., pp. 69–70.

There are, however, a number of known incidents which support the theoretical arguments.

In Belgium domestic butter sold at the beginning of May, 1932, for 14–17 Belg. Frs. a kilo, while Danish butter was worth 16·25 Belg. Frs.[1] A quota was introduced in the same month but did not come into effect until some time later. By the beginning of September the Belgian price had risen to 21–24 Belg. Frs. while the Danish price had only risen to 20 Frs. While formerly the price of Danish butter was only just under the highest price for butter in Belgium, the difference had now risen to 20 per cent of the Danish price. By September the reduction (by a tariff) of the British demand helped to depress the price of butter in Denmark to 13–15 Belg. Frs., yet the Belgian price remained at the high level of 19–20 Belg. Frs.

The price of butter in France may serve as a further proof that changes in the foreign price have no influence on the price charged internally by the importer. After many different attempts by the French government to control the imports of butter,[2] a quota for this commodity was finally re-introduced in the spring of 1933. The following table shows the different development of the foreign, the wholesale, and the retail prices.[3]

BUTTER: PRICES IN FRANCE (per kilogramme)

1933	*Price at port of entry.*	*Wholesale.*	*Retail.*
April	5	17	23
May	8	14	19
June	8	15	19
July	10	15	20
August	10	18	23
September	10	20	25
October	6	19	26
November	11	19	25
December	7	19	25

If all things except the foreign price had remained the same, the internal price might well have remained the same also; for there was no connection whatever between the movement of the former and that of the latter. The changes in the domestic price were due to changes in domestic production and demand.

The development of the prices of a number of products

[1] The information was obtained from the *Vossische Zeitung*, 3rd December, 1932. Belgium consumes annually 80 mill. kilo of which 20 mill. are imported from Denmark, Holland, etc.

[2] For a detailed description of the butter import regime in France, see F. A. Haight, op. cit., pp. 49–54.

[3] Ibid. where the same figures are used to illustrate a somewhat different point.

restricted by Italy in April, 1934, may serve as a further illustration of the effects of import quotas. The indices given in the following tables have been calculated from series which have appeared in an excellent article by Pietro Mario Beghi in the now discontinued *Riforma Sociale.*[1]

PRICES OF CERTAIN COMMODITIES SUBJECT TO ITALIAN IMPORT RESTRICTIONS, 1934

OILSEEDS

	Prices in London. Linseed (Bombay).	Plata.	Colza.	Wholesale index. Italy (Provincial Council of Milan).
January	100	100	100	100
April	101·3	104·5	106·3	97
July	106·8	108·5	115·6	113
September	103·3	106·3	108·8	129
December	101·6	97·3	127·6	136

COPPER

	Electrolytic London.	Le Havre.	Italy.
January	100	100	100
April	98·1	98·5	100
July	88·5	88·1	96
September	79·5	80·6	92
December	80·9	81·1	100

WOOL

	Antwerp Bourse. (combed.)	Italy.
January	100	100
April	93·9	103·8
July	67·5	103·8
September	61·3	103·8
December	62·4	103·8

While oilseed prices remained more or less stable abroad, they showed a definitely rising tendency in Italy after the imposition of the quota. At the time when the prices of copper and wool remained stable in Italy, they declined on world markets.

Changes in the domestic price which follow the foreign price give the impression that the external value does influence internal price. The following table illustrates this point :—

EGGS: PRICES IN SWITZERLAND AND IN EXPORTING COUNTRIES.[2]
(In Swiss centimes paid to producer)

1933.	Switzerland.	Denmark.	Bulgaria.	Rumania.
January	18·3	6·6	—	5·5
April	10·3	2·3	2·5	2·7
July	11·0	3·2	2·7	2·7
October	14·8	6·3	6·4	3·9
December	18·3	6·7	7·1	—

[1] March–April, 1935, pp. 165 *et seq.*
[2] Report VIII, Document 3081, *Bundesblatt* No. 10, p. 365, 7th March, 1934, vol. v.

But if the quota fixed the quantity below the level which would have been imported in its absence at *each* of the prices given in the table, it is very unlikely that Swiss prices fluctuated as a result of the fluctuations abroad. The reason for the correlation was, of course, that the seasonal fluctuations in production are very similar in all the countries in question. The quantitative restriction on the importation of eggs into Switzerland was the reason for the permanently higher price in that country.

On the other hand, though seasonal fluctuations in price are largely determined by foreign prices under conditions of free trade (or under tariffs) a quota may considerably reduce such periodicity. If the habits of consumers have become adjusted to such seasonal changes the stability of the price may not result in the stability of the demand (even if other things remain equal) but, for example, in a decrease if a fall in the price is expected. French pork merchants found that consumers turned to other sorts of meat when on account of the quota the price of pork did not fall. In this particular case prices usually decline towards the end of the year, but in 1932 prices in December were as high as they had been during the period of maximum price (July).[1] The quota on foreign pork prevented the fall in the domestic price.

Generally it was possible for the importer to make an extra profit per unit of imported commodity, particularly if licences were issued at home, or if in the absence of licences the importing country was an important market. But as already shown the right to issue licences was frequently given to the exporting country. In a number of cases where even the importer had to pay a higher price after the establishment of the quota, it cannot be stated with certainty whether the higher price was due to the creation of a complete monopoly on the export side or to the issuing of licences by the exporting country.

There are, however, some examples where the higher price seems definitely to be due to the transfer of the right to issue licences to the exporting country. When the Italian exporter of Gorgonzola cheese was in possession of the licence the French importer had to pay 9·50 lire per kilo. Subsequently, when the licence was issued in France, the price fell to 3·50 lire.[2] Angelini [3] cites the

[1] See *Bulletin de la Chambre Syndicale des Marchands de bestiaux*, quoted by Lautman, op. cit., p. 71. The comment of the Bulletin read thus: "Ces prix excessifs (of pork) détournent forcément la consommation de cette catégorie de viande et provoquent les pires difficultés aux commerçants intéressés."

[2] Publication of the *Fédération des Importateurs de produits alimentaires.*

[3] Op. cit., p. 139.

case of a French importer of pork whose foreign suppliers no longer offered at the old price once the licences were issued by the exporting country. While the price in Paris was still 6·85 the foreign exporter demanded 8·30 per kilogramme. Polish exporters of eggs charged the French importers $14–15 a case while offering the same quality for $9–10 to Germany and England.[1] For a time Dutch exporters of butter are said to have taken double the price from their French customers that they took from English or German importers.[2]

In spite of the fact that quotas have at times raised certain prices in the exporting countries, the net effect of the measures seems to have been that they assisted in maintaining a higher level of prices in the importing countries. On the basis of 1929 prices the Swiss government, in seeking stricter price control, calculated changes in the cost of living from 1929 to 1934. Results of this inquiry may be arranged in the following way :—

PERCENTAGE REDUCTIONS IN VALUE OF COST OF LIVING INDICES BASED ON GOLD PRICES (1929 to 1934)[3]

Quota Countries.	%	*Exchange Control.*	%	*"Free Countries."*	%
France	7	Germany	21·4	England	47·0
Switzerland	19·9	Czechoslovakia	22·0	Sweden	47·6
Belgium	20·7	Hungary	47·0	U.S.A.	53·0
Italy	21·5	Denmark	52·0	Canada	54·0
Holland	26·0	Austria	25·0	Japan	68·0

The difference between countries with quantitative import regulation and those with exchange control or without any form of trade restrictions, except tariffs, is very noticeable.[4] While the first group showed a reduction of only 21 per cent (unweighted average) the indices of the second and third group fell on an average by 34 per cent and 54 per cent.

Organized opposition against rising costs of living was carried on in a number of countries. In *Belgium*, the *Comité National de Défense du Libre Echange* under the leadership of George de Leener wrote an Open Letter to the Prime Minister, M. Rankin, objecting particularly to the rising prices of food products.[5] In France the *Union Française des Industries Exportatrices*, specially founded for the purpose of opposing quotas, continually

[1] Ibid., quoted from an article by J. Proix in *Vendre*, April, 1932.
[2] See *Industrie und Handel*, 4th July, 1932.
[3] Original figures published in *Bundesblatt*, 1935, vol. i, p. 526 (*Botschaft* of 18th March, 1935; official document 3226).
[4] The difference is large enough to outweigh the obvious reservations which must be made in index number comparisons such as differences in composition and changes in demand.
[5] See also above, p. 13.

drew attention to the evil effects of higher prices, though particularly interested in the development from the point of view of costs in the export industries. In Holland the *Nederlandsche Vereeniging vor Vrijhandel*[1] and the organization "for the transmission of complaints in quota matters" carried on a campaign against higher prices of consumption goods besides attacking the system on other grounds.[2]

Wholesale prices show a similar tendency. The following table illustrates how gold prices have remained relatively higher in France, Holland, Switzerland, Italy, and Belgium than in the United Kingdom, the United States, Sweden, and Japan—both groups taken as representative.

INDICES OF WHOLESALE PRICES IN GOLD
(World Economic Survey, 1933–5 and 1934–5; 1929 = 100.)

	End of 1931.	*March*, 1934.	*End of* 1934.
France	70	60·3	55
Holland	60	53·0	54
Switzerland	73	64·1	63
Italy	68	53·5	58
Belgium	67	55·0	55
England	54	27·6	46
U.S.A.	72	31·3	48
Sweden	55	45·4	46
Japan	60	28·0	28

Both comparisons are, of course, only a very rough measure of the actual development. Cost of living indices contain a large number of articles whose prices, on account of their domestic determination, may fluctuate within wide limits before they follow the prices of imported commodities. Although quotas may raise the prices of many manufactured or agricultural commodities, the cost of living index does not necessarily rise. Cost of living indices have been chosen, however, not only for want of a better set of figures, but also because the collection of prices which go to make it up tends to influence the daily life of the mass of consumers. The wholesale index, on the other hand, is frequently weighted in favour of raw materials. The latter are generally excluded from quota restrictions or at least treated with much greater leniency than finished products. Nevertheless, the development of the wholesale index is of prime importance to the producer, and as it generally includes half-finished manufactured products which have risen on account of higher prices of finished products it indicates the trend.

[1] See its rather biased publication No. 94.
[2] See *Industrie und Handel*, 23rd September, 1932.

(b) Quantitative Import Control and Monopoly

The results of quotas with respect to monopolies are interesting from two points of view. In the first place the effects of protection on monopolized national production differ from those on competitive home production. Secondly, the legal limitation of the supply of a particular commodity in a given national market may facilitate the creation of monopoly in home production, in the import or the export trade. This tendency towards monopoly is enhanced if import or export licences are issued.

Consider some actual cases of the protection of monopolized home production. The countries where such cases are most liable to occur are Switzerland and Holland. In Switzerland there were no legal limitations on trusts and other forms of combination.[1] Towards the end of 1932 the Dutch Minister of Trade and Commerce told the press that the authorities had in many cases refrained from the imposition of a quota for fear that the restriction would create internal monopolies.[2]

Information on actual monopoly cases is extremely scanty. Although the official reports on Swiss import control abound in examples where the protected industry consisted of a single firm,[3] it is difficult to say within what limits such firms could act as monopolists with respect to domestic selling policy. The chances are that very few of these single firms could actually carry out a complete monopoly policy. But the limits within which they could do this were not only widened by the introduction of quota restrictions as such, but also by the very high risks which attach to new investment in the same line of production in a small market and in view of the expected temporary nature of import control. Nevertheless some of the evidence in connection with governmental price control suggests that the profits of some of the single firms were larger than would correspond to competitive conditions.

Swiss production of automobile tyres and tubes may serve as an example. Until early in 1933 Switzerland depended on imports for its supply of automobile tubes. A rise in the price of the commodity and cheaper labour made its production possible in Switzerland. Soon imports at lower prices threatened the

[1] Swiss government's report in connection with the introduction of price control, document 3226, *Bundesblatt*, 1935, vol. i, p. 536.

[2] See *Nieuwe Rotterdamsche Courant*, 8th November, 1932.

[3] In addition to those mentioned in the text: sewing machines, washing machines, mechanical instruments, medicine bottles.

discontinuation of production.[1] For this reason foreign imports were limited by a quota fixing the importable quantity at 70 per cent of imports in the preceding year. Thereupon prices were immediately raised by 5 per cent, and again by the same amount before September, 1933.[2] Further increases followed at the beginning of December and in January, 1934.[3] The very extensive Xth Official Report [4] on the operation of Swiss import restrictions gives the following price indices for average quality of foreign tubes :—

1932.	*April*, 1933.	*May.*	*September.*	*May*, 1934.
100	111	122	122	111

Swiss prices were raised a number of times at a time when foreign prices remained the same. Once the quota had reduced foreign competition and raised the price internally, subsequent increases in the home price cannot be accounted for by increases in the foreign price beyond the domestic price at its level after the introduction of the quota. The fact that the Swiss price control prevented further increases shows that the higher prices were not a necessity. There were many cases where the authorities permitted higher prices on proof that costs had risen or that production had been carried on in spite of prices which did not cover costs, before the establishment of restrictions.[5] The presumption is that the cases where the Swiss control authorities forced producers to reduce their prices represent incidents of monopoly profits, generally through combination. For example, the producers of certain woollen clothes were forced in 1934 to come down by 5 per cent after the price of the Swiss article had risen by 10 per cent over its price in 1933.[6]

The chances that monopolies will be formed in production or trade are always great if the supply which would under free conditions come forward at given prices is limited. Potential competition is reduced. Under free competition with a

[1] VIth Report (official document 2970), *Bundesblatt*, 2nd June, 1933, p. 2.

[2] VIIth Report (official document 3003), *Bundesblatt*, 27th September, 1933, vol. ii, p. 372.

[3] VIIIth Report (official document 3081), *Bundesblatt*, 17th March, 1934, vol. i, p. 396.

[4] See *Bundesblatt*, 18th March, 1935, vol. i, p. 492.

[5] VIIth Report, pp. 273 et seq.

[6] IXth Report, p. 491. It seems that only a 5 per cent reduction was enforced because raw wool prices had also risen :

Prices of Merino, Antwerp per Engl. pound (in Swiss francs) :—

	I	II	III	IV
1933 .	1·61	1·73	2·06	2·16
1934 .	2·42	2·03	1·56	—

theoretically unlimited supply an individual seller knows that he will not be able to dispose of any of his goods if he sold them at a price higher than the ruling price. Other sellers should immediately replace him. But if the possibility of such replacement is reduced and its maximum extent fixed, the chance arises that profits may be increased if the goods in question are sold at a higher price.

A tariff, unless it is very high, does not permit a complete monopoly of domestic production, even if all national producers agree to combine. For the national monopolist or monopolistic organization cannot raise the price above the foreign price plus the tariff. If it did so, foreign imports would replace domestic sales entirely. The foreign price (plus the tariff) sets a limit beyond which the domestic price may not rise. A quota, on the other hand, fixes not only the extent to which imports will replace the sales of domestic producers (no matter what their price may be) but also the range within which the foreign price may influence the domestic price. Once the domestic and the foreign price have found their own equilibrium levels after the introduction of the quota, any decrease in the latter below the newly-established level will not influence the level of the former. The foreign price regains its influence over the domestic price only where the former has risen above the new level of the domestic price. Under these conditions, the formation of a national producers' monopoly is greatly facilitated.

The main obstacle in the way of establishing a national monopoly is the existence of foreign competition. This difficulty is considerably diminished by the quota, for in the first place changes in the foreign price influence the domestic price only within a limited range. And, secondly, the extent of potential foreign competition is limited and known. The quota, unless it amounts to a complete prohibition, still admits imports of the foreign commodity, but since their quantity is constant, a monopolist will not find it difficult to include them in his estimate concerning the demand curve confronting him. The second obstacle in the way of establishing a national monopoly is the existing and potential competition of domestic production. Once the main difficulty, i.e. the existence of foreign competition, has been eliminated by the quota, the establishment of a national cartel or monopoly should not meet with too violent opposition, for it may become apparent to all concerned that on account of the limitation of foreign competition, combination has been made possible, and may be to the advantage of the industry.

It is difficult to find actual examples for the establishment of such monopolies after the introduction of an import quota, but in the report of the Swiss government on price control,[1] the main reason for higher prices in Switzerland is stated to be the growth of cartels and other forms of monopolistic combination to which the limitation of foreign supplies has given rise. A memorandum prepared by a committee of experts and quoted in the government's reports drew attention to this development and particularly to the increasing tendency of internal wholesalers to come to price agreements among themselves and with producers.[2]

The tendency towards combination is equally strong among importers. The possibility of extra profits as a result of the restriction of supply creates a situation where combination seems advantageous to the import trade. As total profits of individual importers do not necessarily rise, although profits per unit are increased, monopolization of total imports must suggest itself either to enterprising large firms or to the trade as a whole. The chances that such a policy would be successful are increased by licensing systems, which limit the number of firms in the trade by shutting out newcomers. In Holland, for example, import cartels for certain restricted products were formed at an early date.[3]

The preceding chapter showed that when an import monopoly is formed after the introduction of the quota, it may be to the advantage of such an organization to import even less than the amount specified by the quota. The Swiss report on price control draws attention to this possibility in somewhat vague terms.[4] Officially the reasons for the failure on the part of importers to use quotas to their full extent is believed to be the decline in demand, an explanation which makes the suggestion that, in such cases, quotas should be abolished, seem very harmless. The real reason for the suggestion was probably the wish to discourage further importers' combinations. It was also a tactful reminder to the existing monopolies that their life depended purely on the government's policy.

Apart from the independent tendency to monopolization among

[1] See *Bundesblatt*, 1935, vol. i, pp. 536 et seq. (official document 3226).

[2] The memorandum reads as follows: "Seit dem Erlass der Einfuhrbeschrankungen ist eine verstarkte Tendenz zur Kartellierung und zu Preisabreden festzustellen, und zwar betrifft ein grosser Teil davon Abmachungen unter Händlern oder zwischen Produzenten und Händlern."

[3] See publications (1932) of the *Handels und Industriekammer*, Rotterdam.

[4] p. 544.

importers, governments at times have encouraged the formation of import organizations covering the entire trade in a particular restricted product with a view to facilitating compensation trade and to increasing bargaining power in foreign trade negotiations. Thus a State-directed import monopoly was proposed in Holland for fruit and garden products.[1]

Another case in point is the Swiss organization called "Carbura" which has an import monopoly for petrol and oils. The first increase in the prices of petrol and oils (July, 1932) brought about objections from the Ministry of Commerce, but an inspection of importer's books showed that the higher price was justified.[2] In 1933, a violent Press campaign against the monopolistic position of this organization which allowed it to maintain higher prices was successful in preventing further exploitation of the consumer.[3]

The law which established import control in Estonia [4] gave the State the sole right to import. Wheat, flour, sugar, salt, mineral oil and a number of other commodities were among the first products regulated in this way.[5] The state did not however itself exercise the right to import, but delegated it to import societies which must have enjoyed a monopolistic position. The fact that comparatively big lump sum fees were charged on general import permits indicates that the government intended to redirect part of the possible monopoly profit into its own Treasury.[6] Article 2 of the codified Turkish import regulations reiterated stipulations contained in earlier decrees that the government would do all in its power to prevent import monopolies.[7]

The fact that importers have pronounced against the granting of additional quota licences to new firms does not necessarily imply that they wished to combine or had already organized themselves in this direction. Nevertheless, such opposition to widening the circle of those allowed to import seems to show that importers were conscious of their monopolistic position, a situation very favourable to the establishment of actual monopolies. An example of the desire to maintain their monopolistic position on the part of certain Dutch importers

[1] See *Wirtschaftsdienst*, 15th September, 1933.

[2] Vth Report (document 2929), *Bundesblatt*, 29th March, 1933, vol. i, p. 467.

[3] See *Neue Züricher Zeitung*, 16th March, 1933; *National Zeitung*, 27th March, 1933, and the *Journal Suisse de Commerçants*, 23rd June, 1933.

[4] See Chapter III, p. 33.

[5] See also Chapter XVI, p. 243, footnote 2.

[6] See also Chapter XV.

[7] See *Industrie und Handel*, 25th February, 1933.

has already been given.[1] The memoranda which were handed to the Swiss government by a public spirited private company which proposed changes in the system of foreign trade regulation, alluded to the opposition on the part of Swiss importers to an increase in the domestic supply through giving import permits to new firms.

The case of a relatively powerful combination of automobile tyre importers in Greece offers an interesting example of the way in which an import monopoly may be created under a system of licences. These firms managed to secure for themselves a large proportion of the available licences. True to time-honoured cartel practice, they thereupon lowered prices to such an extent that the remaining import firms were forced out of business. Then if licences in the following year were made partly dependent on imports in the preceding year the permits to the firms which had been forced out of business would necessarily be considerably reduced. In this way the combination would become practically master of the market and recover by monopolist policy the losses in the preceding year.

The tendency towards combination as a result of quota restrictions is even stronger in the case of exporters. While importers have at least the chance to increase their profits after the establishment of the quota, exporters are almost bound to lose. The desire to combine in order to share in, or to absorb all, the new profits to be made in the importing country therefore exists even if there are no export licences to facilitate such action. Governments themselves have at times encouraged the formation of export selling organizations.[2] In Finland this action was taken in the spirit of reprisal; in Italy and particularly in Germany, it may have been believed that the monopolization of exports would bring in a maximum of foreign exchange.

If the producers in a particular country have no fear of the competition of third countries since the quota is definitely fixed for each supplier, the chances for a combination to be successful are increased considerably. Just as the quota enables a combination of internal producers to make certain working assumptions concerning the demand curve confronting them, so are exporting producers in a much better position to act as monopolists if the quantities which may be supplied by third countries under the importing country's quota is fixed and known. If the importing country does not produce the article in question, each

[1] See *infra*, p. 101, footnote 3.
[2] See also *infra*, p. 112, chapter on "Bilateral Quotas".

exporting country, provided it knows the extent of the quotas allotted to its competitors, may act as a monopolist.

As far as the manufacture of industrial articles is concerned, the tendency seems to have been particularly apparent in Germany's production for the French market. Frequently the method employed was the buying up the licences by a single exporter or an import combination. According to students of this particular situation, the expectations on the part of prospective monopolists were not always fulfilled.[1] The combined policy of using a given equipment nearer to capacity and charging a monopoly price on the French market did not always increase profits to the extent necessary to cover the price paid for the export licences of formerly competing producers.

Though there was definitely a tendency towards combination on the part of producers in the countries which saw their exports limited by quota restrictions,[2] the expectation that import restriction may not last very long, frequently discouraged reorganization of production for this purpose. This same longer term view in some cases dissuaded monopolists from charging the full monopoly price. Though to the immediate advantage of exporters, true monopolist policy might destroy the goodwill needed after the abolition of quantitative import restrictions.[3]

(c) Quotas and Domestic Production

It remains now to deal with the effects of quotas on internal production in general. The main question is whether in practice quantitative import control achieved the object of maintaining the existing character and extent of domestic economic activity, i.e. whether, in fact, protection has been successful from the point of view of stability in production and more particularly in employment.

Under the usual assumption of a rising supply curve internal production of a particular restricted article increases if its price rises. Such a rise in prices only takes place, of course, if the quota is fixed at a level below the quantity of imports demanded at a given price just before the establishment of the quota, and if the demand for such a commodity does not fall independently of the

[1] See an interesting article by Dr. A. Herzberg, *Frankfurter Zeitung*, 2nd December, 1932.

[2] Dr. A. Herzberg on the case of Germany: "Hier breiten sich unleugbar Entwicklungen aus, die für die gesamte auf den Export nach Frankreich eingestellte Industrie im Sinne einer Konzentration wirken, die aber bald ihrer Grenzen innewerden wird."

[3] Cf. Tomitch, op. cit., where the author, though somewhat vaguely, alludes to this attitude on the part of monopolist exporters.

quota by an amount equal to the legal reduction in imports. These results were reached on the assumption that the demand for other products and the position of the internal cost curve does not change. The results of the partial equilibrium analysis would, therefore, approach most closely the effects which arise where the importation of a single commodity is restricted. Naturally this has never been the case in practice. The fact that in most countries a large number of commodities have been subjected to import limitation alters materially the conditions under which the economic mechanism operates with respect to the effects of an import quota on the production of a given commodity. Though the price of a particular product has risen or has been maintained at a level higher than that ruling in other countries, there is no necessity for the production of this article to have increased also. Thus, although all prices may be higher after the introduction of the quota regime, total internal production may not, and most probably will not, have risen. This again does not invalidate the conclusions of the theoretical chapter; for these have been reached on the basis of certain assumptions, necessary to elucidate the fundamental principles, but *strictly* applicable only to a case which is unlikely to arise in actual practice.

The results of quantitative import control with regard to domestic production must be judged not by what has happened in isolated cases, but by its effects on domestic production as a whole. But before a brief picture of such general consequences it may be well to inquire into the more immediate effects on the extent and character of industrial production.

The most probable impact effect of an import restriction which raises the internal price or dispels the fear of increased imports which are expected to render home production less profitable, is an increase in the output in the protected industry. There are, indeed, a large number of examples where quotas effected an improvement in industries which had been forced to contract under the onslaught of foreign competition. In Belgium activity in certain industries increased soon after the introduction of quotas.[1] While the Belgian government and its advisers were not in favour of a highly increased output or an extension of plant on the part of protected industries,[2] the official reports on

[1] See *Industrie und Handel*, 18th October, 1932.

[2] In October, 1932, the Cabinet of the day decided not to introduce new quotas so that for a while the plans for an extension of the system (which, indeed, never reached the proportions of French or Swiss control) were abandoned; see *Industrie und Handel*, 18th October, 1932

the Swiss quota regime do their utmost to justify control measures of the government by alluding to cases of improvement or expansion in domestic industries.

The first industries to benefit from the restrictions in Switzerland were the cotton and silk goods manufactures.[1] In the second half of 1932 it was claimed by the Ministry of Industry, Crafts and Labour that import restrictions had led to re-employment in the clothing and embroidering industries, the manufacture of shoes, furniture, rubber goods and mechanical tools.[2] In March, 1933, it was estimated that at that time industries employing approximately 220,000 people enjoyed protection, while at the beginning of the quota regime only 60,000–70,000 workers were affected. Industry in general was said to be in favour of the existing restrictions and, notwithstanding the losses in the export trade, demands were made for further protection.[3] Towards the end of the year further re-employment continued in the shoe manufacturing, woollen and knitted goods industries and particularly in the manufacture of wireless sets.[4] Re-employment in wool went on into 1934,[5] while the metal industry expressed satisfaction with the effects of the restrictions in 1935.[6] Improvement was, however, by no means general even in the protected industries, as may be seen from the continued demands on the part of some sections of domestic manufacture for increased protection.[7]

In France also the initial effect of import quotas was a slight improvement in some of the protected industries, particularly the cotton manufacturing industry.[8] During the first year of quotas on foreign cotton articles home production was not only maintained but rose as may be seen from slightly increased import of raw cotton from 248,000 tons (1931) to 261,000 tons (1932).

The examples so far given of the effects of quotas on domestic production consisted of individual cases where the restriction had either assisted in the maintenance of activity or had made some re-employment of workers possible. From the point of view

[1] IInd Report, *Bundesblatt*, 27th May, 1932, p. 947.
[2] IIIrd Report, *Bundesblatt*, 14th September, 1932, p. 490.
[3] Vth Report, *Bundesblatt*, 29th March, 1933, vol. i, pp. 467–8.
[4] VIIth Report, *Bundesblatt*, 27th September, 1933, vol. ii, p. 3.
[5] VIIIth Report, *Bundesblatt*, 7th March, 1934, vol. i, pp. 403 et seq.
[6] Ibid., p. 505.
[7] Ibid., p. 505. For example the artificial silk industry asked for stricter import control.
[8] *Revue d'Economie Politique.* Annual articles on "La Production Industrielle".

of international division of labour, such re-employment may have been opposed to the real interests of the national economy at times, for there is no reason to believe that the existing over-capacity was temporary in all cases.

Much more dangerous than mere maintenance or revival of existing industries is the expansion of old or even the founding of entirely new industries under the shelter of quantitative import control. Such a development is called dangerous only on the criterion of the maximization of the standard of living, and from the point of view of the stability of productive activity once it has become apparent that the maintenance of import restrictions constitutes an obstacle to industrial progress. If, on the other hand, it is the object of the government to achieve full employment (even if only temporary) at all costs, the expansion of old and the creation of new industries under the shelter of import restrictions, whatever its influence on the standard of living and the stability of industrial activity, may be desirable policy. Particularly if the national economic system is largely monopolistic on the capital as well as on the labour side, protection at an increasing rate may be the simplest way to achieve this end. And, indeed, it was the desire to relieve unemployment which induced governments to increase protection—

(*a*) Where the menace to domestic industry was not particularly great (because the industry was not suffering from extended over-capacity) and

(*b*) where domestic conditions were not favourable to the creation of the new industry.

Comparatively rare were the cases where governments foresaw the dangers of a policy of unhealthy expansion or, rather, where they estimated its consequences as less desirable than the probable temporary existence of unemployment. Some governments, however, did not give themselves up blindly to the temptations of protection. In Belgium the so-called Committee of Five [1] for industry and foreign trade emphasized in 1933 that the purpose of the restrictions was not to foster the development of new industries.[2] In some other countries the importation of

[1] This Committee was constituted for the purpose of inquiring into industrial activity and foreign trade; it consisted of Minister Theunis, the President of the Antwerp Chamber of Commerce, the Director of the Industrial Association, a director of the National Bank and a representative for Agriculture. It met for the first time on 27th September, 1933. See *Industrie und Handel*, 29th September, 1933.

[2] See *Wirtschaftdienst*, 10th November, 1933.

machinery has been restricted in order to make expansion and the creation of new manufactures difficult. Simultaneously with the introduction of quantitative import control in Latvia, the government announced that quotas had been strictly determined according to the productive capacity of Latvian industry and that new investment was to be discouraged.[1]

In Switzerland, however, where the maintenance of employment played a predominating rôle in determining the policy of import restrictions, most of the new investment during 1931–35 seems to have been due to the increased profit chances in protected industries. Large new factories for the production of wireless sets were erected in 1932–33 in La Chaux-de-Fonds and in the watch-making regions.[2] Apparently it was necessary to increase protective measures to keep the new industry alive, as may be inferred from a letter written by the Association of Swiss Radio Manufacturers to an influential politician.[3]

The Press reported a number of cases where new articles were produced in Switzerland at a very much higher cost than abroad. *Der Bund* of 17th May, 1933, relates the case of an industrial article which was produced at three times the foreign price at the suggestion of the Import Section of the Ministry of Economics. Sometimes the reason given in the official reports for increased protection is the fact that a new firm has been started to produce the article concerned.[4] Where production of a certain commodity had been in existence before the introduction of import limitations, the government frequently accompanied its refusal to grant an import permit with the suggestion that the importer should acquire the product in the home market. The *Neue Züricher Zeitung* (16th August, 1934) relates a case of an importer who, seeing his quota of salad oil reduced to 37 per cent of his imports in 1932, went to the Import Section of the Ministry of Economics and declared that he would have to reduce his staff unless he were permitted to import larger quantities. He was told to buy his oil from the protected Swiss manufacture of the article in question. The examples show that the Government of Switzerland was concerned above all with the maintenance of industrial activity.

[1] See *Industrie und Handel*, 6th November, 1931.

[2] Quoted in the *Journal Suisse de Commerçants*, 20th November, 30th June, 1933.

[3] Ibid.

[4] See, for example, XIth Report, *Bundesblatt*, 18th September. 1935, vol. ii, p. 242. The actual case reported is the production of cast-iron pots and other kitchenware.

In its Xth Report (18th March, 1935) [1] the Swiss Government admitted, however, that many of the investments induced by import restrictions had turned out to be mal-investments,[2] and that the protected industries were continually emphasizing that their existence depended on the continuation of import restrictions. At the same time the Government came to the conclusion that private investments in protected industries was now tending to come to an end. Frequent disappointments of those who had expanded their businesses or founded new enterprises on the basis of existing demands helped to discourage further expansion for the home market. The experience of the automobile assembling industry and the woollen goods manufacture [3] seems to have had a depressing influence on investors' opinions. Moreover, the increasing uncertainty as to how long import restrictions would be maintained must have damped the enthusiasm of producers and investors towards the end of 1935 and in 1936.

On the assumption of an unchanged domestic demand for, and more or less stable costs in, the production of a new article, it is possible of course to maintain activity in the industry concerned by keeping out foreign competition. But the demand and supply conditions tend to be even less stable under a regime of import restrictions than under normal conditions, for as a result of increased prices of other restricted products the demand for the new article may fall. Secondly, as the production of further articles becomes profitable at home certain factors of production may become expensive, with the result that costs rise or rise more than they had been expected to do.[4] Creation of new industries or considerable expansions of existing branches of production do not seem to be so common in the other important quota countries. Rather than bring about a net increase over the production of particular articles in normal times, import restrictions in Holland and France generally had the effect of reducing some of the over-capacity which had developed when the intensity of foreign competition first increased. F. A. Haight,[5] however, mentions the case of the manufacture of radio valves and sets, where it was found upon inquiry that within a year of

[1] Op. cit., p. 74.
[2] Published in *Bundesblatt*, 27th March, 1935, p. 504; 22nd July, 1936.
[3] See Conference of the Zurich merchants.
[4] See below, p. 190 ff. for further elucidation of the effects of import restrictions on domestic costs and prices.
[5] Op. cit., p. 74.

the restriction of imports (January, 1932) French factories had increased their number of workers by 3,000.

An interesting development from the point of view of the effects of quotas on the character of domestic production, which seems to have taken place in France and Belgium to a greater extent than in the other important quota countries, is the transfer of industries across national frontiers. " A large number of Belgian firms . . . have erected in France assembling and finishing plants or complete factories." [1] French houses, on the other hand, " in order to evade quotas and excessive tariff rates were in a number of cases forced to cease exporting their finished products to Belgium. They, therefore, carry on a part of their production in Belgium or export goods in parts or a semi-finished state, to be assembled or finished in Belgium."[2] The zinc industry and other powerful foreign companies were said to have established branches in France as a result of French import restrictions.[3] According to *Le Temps* (7th April, 1935) negotiations were actually carried on between Belgian and French manufacturers of textiles concerning an exchange of factories in both countries. It may be worth while to reproduce the intelligent comment made by this newspaper concerning the effects of such transfers : " . . . les industries travaillent dans des conditions techniques généralement médiocres et accroissent les frais généraux. C'est un mouvement contraire a l'évolution normale des industries vers la rationalisation."

In the smaller countries with quantitative import control, the authorities frequently pointed to increases in home production as a favourable result of the quota policy. Thus the report of the " Conseil Economique " of Greece gave as one of the reasons why imports into that country declined in 1932, the increase in domestic production.[4] Cause and effect were thus turned around but the fact remained that new industries were created during the time of the restrictions. In spite of the fact that in 1931 the Latvian government had declared that import restrictions were not to be employed to foster the expansion of old or the creation of new industries, it was pointed out in 1935 that 700 new industrial units had been created. The textile industry had expanded so that while formerly 50 per cent of the consumption had to be imported, internal industry was now able

[1] *Le Temps*, 7th April, 1935.
[2] Ibid.
[3] Cf. J. Proix in *Revue d'Economie Politique*, 1932, p. 439.
[4] *Messager d'Athènes.*

to supply 95 per cent of the domestic demand, though of course at noticeably higher prices.[1]

A few words must be said about the effects of quotas on agricultural production. In the important quota countries of Western Europe quotas had the effect of maintaining production rather than increasing it. In France the production of meat declined somewhat as a result of the decrease in consumers' incomes. The following table shows the development of the internal production in the Western quota countries :—

PRODUCTION OF CERTAIN FOODSTUFFS IN IMPORTANT QUOTA COUNTRIES, 1931–5 AS PER CENT OF 1925–9
(*World Economic Survey*, 1935–6, p. 54)

	Wheat.	*Rye.*	*Potatoes.*	*Butter.*	*Meat.*
France .	108	91	110	128	95
Holland .	238	105	91	108	103
Switzerland .	118	88	107	176	112
Italy . .	117	94	122	—	99
Belgium .	103	98	106	105	104

Most remarkable are the increases in the domestic production of butter in France and Switzerland and of wheat in the Netherlands. In spite of the severe limitations on meat imports in all the above countries, Holland alone stands out as an example for a marked increase during the period of restriction.

Increases in the production of agricultural commodities from 1925–9 to 1931–5 are much more pronounced in the Baltic countries and in Greece, as may be seen from the following table :—

PRODUCTION OF CERTAIN FOODSTUFFS IN CERTAIN BALTIC COUNTRIES WITH QUOTA CONTROL AND IN GREECE, 1931–5 AS PER CENT OF 1925–9
(*W.E.S.*, 1935–6, p. 54)

	Wheat.	*Rye.*	*Potatoes.*	*Butter.*	*Meat.*
Latvia . .	267	129	172	163	122
Lithuania .	147	110	137	693	101
Greece . .	179	150	225	—	107

The expansion of agricultural production in these countries, however, was only in part due to restrictions on imports. Internal subsidies, increased efficiency and general economic development all played their part. But the existence of control increased the certainty of domestic markets so that production was further encouraged.

On the whole import restrictions appear to have assisted in maintaining activity in particular branches of production, and in some instances they have rendered the domestic manufacture of new products profitable. To this extent protection achieved its

[1] *Frankfurter Zeitung*, 30th April, 1935.

end. But this is not the whole story. Though over-capacity was reduced, though unemployed workers were re-absorbed in their old industries or even in enterprises manufacturing new articles, total domestic production generally decreased under quota restrictions. The following table shows the development of industrial production in a number of quota countries :—

INDUSTRIAL PRODUCTION

(League of Nations: "World Production and Prices, 1934–5", 1925–9 = 100, yearly averages on the basis of quarterly data)

	1930.	*1931.*	*1932.*	*1933.*	*1934.*	*1935*.*
Belgium .	95	85	71	75	75	74
France .	115	102	79	88	81	76
Holland .	105	91	72	79	80	78
Greece .	112	116	109	119	136	130

* One quarter only.

With the exception of Greece, production indices stood at a lower level in 1935 than in 1931.

It is very difficult to say to what extent the net decrease in production was due to the depression, to the import restrictions as such or to the measures adopted against exports by other countries. But it is possible to state in what way import restrictions, though possibly maintaining or increasing the output of some of the protected industries or even assisting in the establishment of new industries, may affect production as a whole unfavourably.

The argument is comparatively simple if we start off from a condition of full employment of men and resources. The existing distribution of resources in particular uses may be regarded as that which brings about a maximum of returns from the given resources of the national economy.[1] Looking at a particular country, this generally means that the resources are distributed among their different uses in such a way that a part of their product is sent abroad in exchange for goods which may be produced more advantageously in other countries. The distribution between resources producing for the home market and those producing for foreign markets is not stationary but changes through time. If left alone, i.e. without restrictions on trade, the distribution which exists at a given moment of time tends to be that which constitutes the most advantageous international division of labour. The term "advantageous" is used in the sense of costs and prices. If under these conditions a restriction is placed on the imports of a particular commodity, its price will

[1] Under perfect competition, this state of affairs is described as one where the marginal product of homogeneous factors of production is the same in all uses.

rise. As profits increase in the protected industries resources formerly employed in other branches of production will be transferred to the new industries. On the assumption of full employment, the prices of certain raw materials, types of skilled labour and other factors of production will be bid up in order to withdraw them from their former uses. Costs in other industries, therefore, will rise. To the extent that factors of production become more expensive to export industries these will no longer be able to compete in foreign markets. Exports therefore will tend to fall more than is warranted by the decrease in foreign demand which tends to be caused by the initial import restriction. Instead of exporting a certain part of total production and obtaining in exchange a certain quantity of imports for home consumption, the exported quantity is less and in its place goods formerly imported are now produced at home. The country will obviously be worse off since the domestic equivalent of the formerly imported goods will be more expensive to consumers. Thus, even if costs and transfer difficulties (from the export and other unprotected industries to the protected industries) are disregarded the country will lose.

On the present assumption of full employment of the country's resources nothing definite may be said about the volume of production. There has been a change in its character and an increase in costs, but in the new equilibrium position the condition of full employment still holds.

Some changes in the argument are required if the assumption of full employment is dropped and consideration is given to the more realistic state of affairs where unemployment existed before the introduction of import restrictions. The first question to answer is to what extent unemployment may be reduced by import quotas, i.e. what are the chances of a *net* decrease in unemployment. The second question is whether such a net increase in production and employment, if it takes place, will actually put the country in a better position than before, i.e. whether the national dividend will necessarily be increased if unemployment falls and production increases.

In the countries where import restrictions were introduced with the object of reducing unemployment or of preventing it from arising, unemployment may be assumed to have had a number of different causes. Unemployment was caused partly by the internally generated trade depression, partly by the increasing intensity of foreign competition (which by increasing the imports of particular product harmed particular domestic

industries), and finally by sudden restrictive measures designed to decrease exports of the countries concerned. Since at the time when most of the import restrictions were introduced in the important countries of Western Europe, the depression of 1930 had not reached these countries, the main type of unemployment to be considered is that caused by increased imports.

The assumption of full employment in the preceding argument was based on the further assumption of free competition on the labour as well as on the capital side. Wages were allowed to fall to a point where all workers are absorbed in old or new industries. All such industries produced to the point where average costs are equal to price, i.e. there were no monopolies producing less than would correspond to this point. Furthermore, the existence of frictional unemployment arising between one state of equilibrium and the next was abstracted from the problem. Under the more realistic conditions now considered, the process of adjustment is connected with more or less temporary unemployment. To the extent that labour is organized, wages do not fall to the level where all would be employed. And since production is partly monopolized, even if wages fall labour is not absorbed to the same extent as it would be if all industries produced to the point where average costs equal prices.

Assume now that an increase in the imports of a particular commodity has forced the home industry to curtail its production and to dismiss a certain number of workers. The latter remain unemployed; their transfer to another industry is impeded either for technical reasons (e.g. very specific type of labour which cannot be readily retained for other jobs) or because wages are maintained by trade union action so that workers cannot offer their services at lower rates. Assume that the unemployed are maintained by the community as a whole, and that the influx of cheaper imports and the payment of unemployment benefits takes place simultaneously. Assume further that the payment of unemployment benefits does not shift consumers' demand curve sufficiently to the left for the outlay on cheaper imports to be lower than the outlay on imports before their prices decreased but that the demand of the unemployed for all products has decreased. In the importing country there has thus been a double decline in demand for other products: consumers spend more on import products and have to assist in the maintenance of the unemployed. The unemployed have less to spend on all products. Assume that the decline in demand affects only products produced at home and that the demand abroad has also fallen so that

exports do not increase although the prices of some home products tend to decline. This fall in the demand for other home products does not necessarily cause any new unemployment. The shift in demand will tend to be accompanied by a decrease in costs so that the volume of production may fall.[1]

Now a quota is introduced. The price of the imported commodity is raised to its former level. Home production may therefore be increased again, the workers formerly unemployed may be re-employed. The demand of other consumers for other products rises as their outlay on the import commodity falls, and they no longer have to contribute to the maintenance of the unemployed. Furthermore, there will be a rise in the demand of these formerly unemployed as their incomes increase. Unemployment has been reduced to the extent that it had been caused by the increase in imports.

The question now is whether any new unemployment will occur ? This depends on the relation between the change in domestic demand and that in the demand of the exporting country for the controlling country's goods. We assumed that all changes in domestic demand affect only home produced products. The increase in domestic demand raises prices of certain home produced articles. At the same time foreign demand declines. For as a result of the controlling country's reduction in imports incomes in the exporting country are reduced. In technical terms, their demand curves are shifted to the left. As prices in the restricting country rise, the quantities demanded by the "exporting" country are further reduced. On the assumption that all formerly unemployed workers and other domestic factors of production are re-employed the result of the quota on the degree of employment depends now on the relative magnitude of the new unemployment (caused by the decrease in exports) and the old unemployment caused by the increase in imports. The new unemployment will be the greater the more elastic is the foreign demand for the other commodities.[2] If the demand is inelastic, and if the proportion of labour used in the production of the restricted article is large, the chances that there will be

[1] The decrease in production in the industry which competes with imports has depressed costs other than labour costs in home industries by cheapening those factors of production, the demand for which had fallen.

[2] I.e., a small increase in price causes a more than proportionate decrease in the quantity taken.

a *net* reduction in unemployment after the introduction of the quota are increased.[1]

The chance that costs in the export industries will rise absolutely or in relation to costs abroad is greater if the quota restriction leads not only to a recovery in the protected industry to its former level, but to an actual increase in production beyond the level before the increase in imports. In this case costs in the export industries will rise more since more workers than had become unemployed and more resources than had found *new* uses will have to be withdrawn from their present employment in other industries. The case corresponds closely to the one analysed above.[2] The probability of a net reduction in unemployment is thus smaller than in the case where production had only been increased to the level obtaining before the rise in imports.

The following table shows the actual development of unemployment in the chief quota countries during the period of import restrictions.

NATIONAL UNEMPLOYMENT STATISTICS AT THE END OF MARCH IN THE YEARS 1929 TO 1935

(*World Economic Survey, 1934–5*, p. 142)

(000's)

Country.	*1929.*	*1931.*	*1932.*	*1933.*	*1934.*	*1935.*
Belgium (*a, c*)	28	207	350	383	345	360
France (*b*)	9	72	347	350	379	527
Italy (*a*)	293	707	1,053	1,082	1,057	853
Holland (*a*)	—	—	253	342	333	384
Switzerland (*b*)	9	61	103	72	70	82

(*a*) Unemployed.
(*b*) Applicants for work.
(*c*) Newly and partially unemployed.

With the exception of Switzerland where the entire policy of import control was designed to reduce unemployment, the tendency has been for unemployment to increase during the period 1931 to 1935.

It is difficult to say to what extent secondary unemployment has occurred in the export industries as a result of the import restrictions and to what extent such unemployment was the consequence of foreign import restrictions to which domestic adjustments could not readily be made. Some proof of the unfavourable effect of import restrictions on the export industries

[1] If prices in the export industries rise because of a net increase in demand there will be no net reduction in production, for the higher price is the result of an increase in the total quantity demanded. If, on the other hand, the increase in the price of export commodities is due to a rise in costs, unemployment might result if total production decreases.

[2] Under conditions of full employment.

of the same country may be found in the constant opposition to import limitations on the part of export interests. The export industries have based their opposition on two main grounds—

(*a*) the purely economic argument that costs in the controlling countries rise in comparison with the situation immediately preceding the restrictions and

(*b*) on the high probability that foreign countries will answer with reprisals against the exports of the initially restricting country.

Opposition by the export industries has been particularly strong in France. In 1932 the *Union Française des Industries Exportatrices* was founded especially for the purpose of carrying on an organized propaganda against import quotas. In an open letter it explained to M. Herriot the fundamental principles of the balance of payments and demanded the gradual abolition of import quotas. A special commission of the *Comité National des Conseillers du Commerce Extérieur de la France* [1] was also in favour of the gradual abolition of quotas in order to assist France's export trade.[2]

The *Comité National de Defense du Libre Exchange*,[3] as well as other industrial and commercial organizations pointed out to the Belgian Government how import restrictions endangered the export industries. Quotas on raw materials especially were the cause of much opposition. In the case of Belgium frequently the assistance given to one industry turned out to be to the disadvantage of another. Restrictions on coal, rayon, and woollen yarns by raising the prices of these products rendered exports of the finished articles more difficult.[4]

At the beginning of the quota regime in Holland [5] opposition by export industries to the new restrictions was based, above all, on the fear of reprisals against Dutch exports. When the quota on fresh and frozen meat was to be introduced early in 1932, the shipping trade (under the leadership of the *Scheepvaart-vereniging Zuid*, Rotterdam), the flowers and bulb growers of Aalsmeer, Harlem and Boskop, and the producers of artificial

[1] See its publication No. 169, pp. 263 ff.

[2] See also publications of the *Association Nationale d'Expansion Economique : Les Problèmes de l'Export Français* (3rd May, 1933); *La Crise de l'Export Français* (30th June, 1932).

[3] See *supra*, p. 174.

[4] For description of organized opposition against import restrictions on these particular raw materials see *Industrie und Handel*, 10th August, 1934.

[5] *Industrie und Handel*, 29th February and 3rd March, 1932.

fertilizer (Superphosphat Fabrik, Amsterdam) all feared reprisals on the part of Denmark.

Switzerland attempted more than any other important quota country to employ import restrictions as a means of bargaining for increased export possibilities. Although the official reports of the government sometimes attributed successes in certain export lines to this general compensation policy, the attitude changed considerably during the later stages of its application. After it had been admitted in a governmental paper [1] that the embroidering trade, the watch industry and the silk manufacturing industry [2] had lost between two-thirds to seven-eighths of their exports before the beginning of import restrictions (at home and abroad) Dr. Hotz, as Director of the Foreign Trade Section of the Department of Economics, declared the gradual abolition of import quotas to be desirable in the interests of Swiss exports.[3]

Even before this partial change in the official attitude of the Swiss Government, the unfavourable effect of import restrictions on exports was noticeable. In the case of Switzerland, the decline in the so-called "invisible" exports was very largely due to the effects of import restrictions in maintaining internal prices at a relatively high level. The decline in the tourist trade and the turnover of the industries partly dependent on the influx of foreigners must be set against the credit items on the financial side of the balance of payments.[4] In spite of low interest rates, the building industry was particularly hard hit during the period of import restrictions: the high cost of living depressed the demand for villas and hotel accommodation.[5]

The most severe import restrictions were almost always placed on finished products while raw materials were generally treated with greater lenience. In so far as internal production of formerly imported commodities became relatively more profitable and to the extent that such production necessitated foreign raw materials one should expect the share of raw materials of total imports to have increased in the restricting countries. Since a volume comparison is misleading the only useful method to illustrate this

[1] "Botschaft" for extension of "Compensation" Trade, official document 3330, 26th November, 1935.

[2] With regard to the silk industry, see also Xth Report, p. 505.

[3] See *Frankfurter Zeitung*, 5th February, 1936.

[4] From the point of view of employment the influx of foreign short-term capital is, of course, of very little value.

[5] See, for example, Vth Report (29th March, 1933). "Die Auswirkung des Einfuhrschutzes in einzelnen Zweigen der Inlandsindustrie wird aufgewogen durch die Verschlechterung im Baugewerbe und in den von diesem abhängigen Industriegruppen" (p. 467).

trend is a comparison of value percentages for the relevant years. On the other hand, the prices of raw materials fell, especially during the first years of the depression, relatively more than those of finished products. For this reason an increase in the quantity of raw materials imported is not necessarily reflected by a rise in the value percentage. The following table shows the development of the relative value of raw materials in a number of countries during the period of import restrictions.

VALUE INDICES OF IMPORTS OF RAW MATERIALS AS PER CENT OF TOTAL IMPORTS, 1929–1935

(Excluding gold from the totals of France, Holland, and Switzerland)

	1929.	*1930.*	*1931.*	*1932.*	*1933.*	*1934.*	*1935.*
France	100	89·1	72·2	72·7	79·1	—	—
Holland	100	94·5	86·6	83·9	81·6	97·3	98·2
Switzerland	100	93·2	87·4	90·8	92·5	99·3	—
Greece	100	102·7	100·9	107·6	124·7	136·8	—
Estonia	100	105·5	105·9	106·6	123·6	129·2	120·7
Latvia	100	109·3	116·6	147·8	174·5	169·2	168·8
Lithuania	100	97·5	93·5	100·7	124·9	127·4	—

The table shows that the relative value of raw materials increased from 1929–1935 in Greece, Estonia, Latvia and Lithuania, while in the three important quota countries of Western Europe it fell. The decline was greatest in France while in Holland and Switzerland the relative share of raw materials was only a little below the 1929 level. But even in France the decline in the index seems to have been smaller than the fall in prices, so that imports of raw materials have been relatively maintained during the period of import restrictions. As far as the four less important countries are concerned the trend is very obvious. In Latvia, for example, the relative share of raw material imports increased by three-fourths from 1929 to 1933, and in Greece by more than a third. The substitution of home produced commodities for former imports was very marked.

Chapter XIII

QUOTAS AND THE BALANCE OF TRADE

The unfavourable state of the balance of payments was the real reason for import restriction in some countries, while in another group of countries the balance of payments argument tended to serve as a convenient excuse for protection. The countries of the first group all introduced exchange control proper at some stage or other, so that the actual results from the point of view of the balance of trade cannot be entirely attributed to the effects of quantitative import control. In fact, once a complete system of exchange control is introduced, the development of the balance of trade is determined by the totality of the restrictions in force. For this reason discussion will be restricted to those countries which have not established a system of exchange control in connection with their quantitative regulations.

What happened to the balances of payments of the countries whose currencies were not in danger at the time when import restrictions were introduced? From the point of view of the stability of the currency it is the trend of the absolute difference between imports and exports which is relevant. Though all items of the balance of payments enter into the determination of the value of the currency, or in our case into the determination of the direction and extent of a flow of gold, we are here concerned only with commodity imports and exports, for the restrictions in question were designed to affect only these current items.

Whatever the real object of quotas may have been with respect to the balance of payments, the absolute value of imports has, with the exception of Italy, fallen more than the absolute value of exports in the important quota countries. The outward relation between the value of imports and the value of exports therefore has improved during the period of import restrictions. The following table shows the development of the balance of trade of a number of important quota countries.

BALANCES OF TRADE 1929–1935. (In 000,000 of national currency)
(*League of Nations Statistical Year Book*)

	1929.	1930.	1931.	1932.	1933.	1934.	1935.
France	− 8,082	− 9,676	− 11,770	− 10,103	− 9,957	− 5,247	− 5,473
Holland	− 763	− 699	− 581	− 453	− 483	− 327	− 261
Switzerland	− 596	—	− 880	− 943	− 733	− 590	− 465
Belgium	− 3,747	− 4,907	− 679	− 1,350	− 791	− 163	− 1,501
Italy	− 6,429	− 5,228	− 1,433	− 1,456	− 1,441	− 2,441	− 1,968

In France and Holland, the balance of trade improved immediately after the introduction of import restrictions. In Switzerland and Belgium, on the other hand, the decrease in exports was at first greater than the partly artificial and partly natural fall in imports, but in the later years the trade balance showed an improvement over its position immediately preceding the introduction of quotas. In Italy alone import restrictions failed to bring about a marked tendency towards improvement of the balance of trade. No definite conclusions may be reached in the case of this country however, because—

(*a*) important import restrictions did not begin until 1934 and

(*b*) military adventures and sanctions changed the economic scene to such an extent that an analysis of the development of the trade balance can no longer be based on the effects of import restrictions alone.

As far as the balance of trade of the other countries is concerned, there is no reason to believe that the introduction of import restrictions was the cause of the improvement; for, as previously indicated, it may well happen that a restriction which reduces imports by a certain amount, results in an equal or even a larger decrease in exports. Such a decrease in exports may be the consequence of an absolute or relative rise in export prices as a result of the higher internal costs brought about by the restriction of imports. And since the demand for the products of the countries concerned tends to be elastic, a decrease in exports (following the contraction in demand) would be very likely.

To the extent that a decline in exports is caused by an increase in costs in export industries or by a fall in foreign demand as a result of artificially reduced imports, the effects of import quotas are the reason for a fall in exports. But if imports fall independently of artificial limitations, a simultaneous decline of exports may only be said to be the result of lower imports to the extent that the initial fall in imports has had a deflationary effect abroad. In the absence of an increase in internal costs (the case of a natural decline of imports) exports will tend to fall much less. If conditions improve abroad and if, at the same time, a considerable

proportion of the fall in imports is not due to artificial limitations, the absolute value of exports may be expected to decrease less than the absolute value of imports, as happened in the actual cases under consideration.

From the point of view of a single country with quantitative import control there is a further reason why its exports should decrease less than one would expect as a result of higher internal costs. For, to the extent that it sends its exports to other countries with quantitative control, an increase in the prices of export goods does not necessarily lead to a decrease in its exports, even if consumer's demand remains unchanged in the other quota countries. As long as an import quota is effective, it maintains a difference between the external and the internal price of the restricted commodity. This spread (minus all transport charges, customs, fees, etc.) is the importer's profit. While under conditions of free trade (or tariffs) any increase in the foreign price tends to reduce imports of the commodity concerned, this will not happen if imports of the foreign product are limited by a quota. As long as the foreign price does not rise by more than the difference between the domestic and the external price, which has existed before the change, importers will go on importing the same quantity. Though their profits are reduced, they would lose if they imported *less* than the quota.

That an increase in export prices has no influence on the quantity exported from a particular country (until the rise is so great that exports would fall even in the absence of a quota) is, of course, only true in the case where the total quota for a particular product has been divided among exporting countries or if the exporting country enjoys a monopoly in the production and sale of the product concerned. For if imports of a particular commodity are limited by a global quota, the demand of importers for goods of particular countries will be just as sensitive as under conditions of free trade or tariffs. Competition among exporting countries is maintained.

The general rule, however, has been a division by countries rather than global quotas. Hence the demand for imports of countries with quantitative import control tends to be much less sensitive to changes in foreign prices than that of countries which rely on tariffs to reduce their imports. Thus, if quantitative import restrictions had not separated internal from external prices in a way that changes in the latter have no influence on the former up to a point, the decline in the volume of international trade would have been larger than it actually was. In other words if

tariffs had been used all round to bring about the *same* initial reductions of imports, the secondary effects of the import restrictions would have been more detrimental than those which resulted from quantitative import control. Therefore to the extent that countries with quantitative import control saw their own exports restricted by quotas, the secondary influence of their import restrictions in reducing the volume of exports was relatively weaker than it would have been had all foreign countries answered with tariffs.

Although in practice the trade balances of the quota countries have generally become more " favourable ", the question may be raised whether, as a short-term method, import quotas are a suitable method to bring about such a development. It is doubtful whether the " favourable " development has taken place as a result of the quotas. A more correct interpretation would probably be that it has taken place in spite of them. Nevertheless, it is worth while to inquire which of the two new methods, quotas or exchange control, tends to be more effective in bringing about an improvement (even if only temporarily) in the balance of trade.

On the assumption that either method leads to the same quantitative reduction of imports [1] (a quota by reducing the quantity

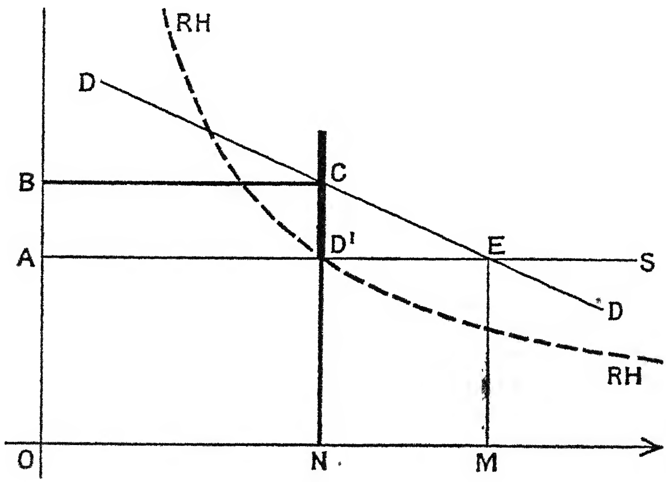

FIG. 10.

[1] How this same quantitative reduction of imports may be brought about by either method may be shown by a simple diagram. Before the

itself, exchange control by restricting the outlay) there will clearly be no difference between the secondary effects of either measure. As is shown below, the ultimate consequences of either method on the balance of trade will be very similar whatever changes may occur in the foreign prices of the restricted imports.

If the *quantity* is limited, a rise in the foreign price will bring about an increase in the amount of foreign exchange which has to be spent on imports, for the elasticity of demand of importers is zero [1] as long as the foreign price does not rise by more than the difference between the domestic and the foreign price which has existed before the change.[2] The internal price of the commodity and the expenditure of consumers other than importers remains the same, but importers' profits are reduced. This net reduction in domestic purchasing power available for other products than that whose foreign price has risen may bring about a decline in imports of other commodities or may lead to an increase in exports if the fall in importers' incomes affects commodities which may readily be exported in the event of a decline in their internal price. The case where the reduction in domestic incomes affects only "domestic" products [3] throughout is unlikely. If imports of a particular commodity are restricted by an exchange control measure which fixes the *outlay* (in terms of foreign exchange) on the foreign commodity a rise in the external price will lead to a decrease in consumers' expenditure on the product concerned. This decrease (on the assumption of an elastic demand) is the result of the necessary reduction in imports when the foreign price rises while the outlay in foreign currency must remain the same. Whatever the elasticity of demand may be

introduction of a restriction OM is imported at price OA (DD being the demand in the controlling country and AS the world price of the commodity concerned). A quota ON reduces the total outlay from AEMO to BCNO of which BCD'A represents *special* profits to importers as a group. An exchange control measure which reduces the total outlay to a rectangle corresponding to the rectangular hyperbola RH also cuts the quantity imported down to ON, reduces total outlay to BCNO and results in a special unit profit D'C accruing to importers.

[1] I.e., whether the price falls or increases the same quantity will be imported. In figure 10 (p. 201, footnote) the elasticity of importers' demand = O along the CD section of the importers' demand curve (DCN).

[2] If the price rises more than this difference the quota is no longer effective. In figure 10 (p. 201, footnote) the quota is no longer effective if the foreign price rises above point C.

[3] I.e. products whose "export point" (to use a term employed by Haberler) is very low, so that a fall in their prices does not lead to an increase in exports.

at home, there will be no change in total internal purchasing power since a change in consumers' purchasing power available for other products is always counterbalanced by a change in the opposite direction in importers' incomes. In the present case the increase in purchasing power available to consumers for other products means a loss in profits to importers. But since it is unlikely that consumers' demand will increase for just those products which importers have to forego, there will tend to occur a change in the distribution of expenditure. Consumers' demand for other than the restricted import products may increase so that the demand for foreign exchange rises or the increase in their demand will affect products formerly exported so that the supply of foreign exchange falls. At the same time the increase in the price of the restricted commodity may stimulate domestic production. If this leads to higher costs in the export industries as factors of production are bid up by the incidentally protected industry, exports may fall as a result of higher domestic costs. Against these tendencies towards a less favourable exchange balance have to be set the effects of the decrease in importers' incomes. A fall in their demand may, in turn, increase exports or decrease imports, for it is again unlikely that the different changes in demand will affect only "domestic" products.

In the case of the quota (where the demand for foreign exchange has initially increased as a result of a rise in the foreign price) the counteracting tendency in the form of a decrease in the demand for, or an increase in the supply of, foreign exchange will tend to be less immediate since the change in incomes affects only relatively few individuals. In the case of exchange control (where the demand for foreign exchange has initially remained the same), the change in available purchasing power does not affect importers only but also the mass of consumers, so that the counteracting tendency in the form of an increase in the demand for, or a decrease in the supply of, foreign exchange will tend to be more immediately effective. To a relatively small counteracting tendency after an increase in the demand for foreign exchange corresponds a relatively effective negative counteracting tendency in the case where the demand for foreign exchange has remained the same. Under conditions of a rise in the foreign price of the restricted commodity, there is therefore, little to choose between the two methods.

What happens in the case of a fall in the foreign price? If imports of the commodity concerned are limited by a quota the outlay in foreign exchange decreases. Internal price and consumers' outlay remain the same, but importers' incomes rise as a result of the increase in profits. There is a net increase in available purchasing power in the controlling country which may lead to an increase in the imports of other commodities or to a decrease in exports either directly (if importers purchase commodities formerly exported) or indirectly (if the increase in importers' demand leads to an increase in the production of commodities which use the same factors of production as the export industries). On the whole the immediate counteracting tendency will be small since it is the income of relatively few individuals which has undergone a change.

If the imports of the commodity are limited by an exchange control measure, the outlay in foreign exchange remains the same. But while the purchasing power of the mass of consumers which is available for other products falls the incomes of relatively few individuals rise.[1] From the point of view of the effects on the prices of other products, the fall will tend to be more important than the rise. The result is either an increase in the supply of foreign exchange (if consumers other than importers decrease their expenditure on home products which may now be exported, or if costs in export industries fall as a result of the decrease in the demand for commodities in whose manufacture the same factors of production are used), or a decrease in the demand for foreign exchange (if the reduction in consumers' expenditure affects import products).

In the case of the quota, a fall in the price of the foreign commodity leads initially to a decrease in the outlay of foreign exchange which is counteracted to some extent by an increase in the demand for, or a decrease in the supply of, foreign means of payment. In the case of exchange control an initially unaltered outlay of foreign exchange tends to be effectively counteracted by an increase in the supply of, or a decrease in the demand for, foreign exchange. Again the ultimate result is the same.

From the point of view of a government which intends to maintain the value of the currency by measures designed to improve the balance of trade, it is immaterial whether exchange control or quantitative regulation of imports is introduced.

[1] The elasticity of demand for the restricted product is assumed to be greater than unity so that a lower price leads to an increase in outlay.

In practice one would expect the choice to fall on exchange control, since all items of the balance of payments have to be included in the system of regulations.

The administrative confusion and inconvenience to importers which arises when both methods are employed at the same time [1] need hardly be elaborated.

[1] This has, for example, been the case in Greece, Rumania and some of the Baltic countries.

CHAPTER XIV

SOME EFFECTS OF IMPORT CONTROL THROUGH EXCHANGE RESTRICTIONS

Some of the technical problems connected with the regulation of imports through currency measures have been considered,[1] and it was found that most of the difficulties in the operation of import control could be solved, or at least reduced by suitable changes in method. The economic *effects* of currency measures are of a different nature. They are the consequences of import limitation *as such* and their principal characteristics cannot be avoided by any alteration of technique.

The results of quotas with regard to the economic conditions in some countries were examined in Chapter XII, and the survey showed considerable probability that the development in prices, production, and employment were the direct result of quantitative import control. There was relative stability in central bank policies of the chief quota countries during the period under consideration. Therefore, the differences between the prices of certain commodites in quota countries and those in the rest of the world could be deduced with a high degree of probability from the existence of quantitative import limitation.

As far as the actual development of prices and production in exchange control countries is concerned, the connection between changes in prices and production and the application of certain restrictions is much less certain. For prices and production in such areas are affected by the totality of restrictions on foreign exchange transactions and not only by those which control immediately the trade in commodities.[2] Any general data for price developments must therefore be used with considerable caution if they are intended to verify the conclusions of theoretical reasoning. At the same time, credit expansions have been carried through in some of the countries under exchange control—particularly in Germany—the effects of which have increased the tendencies brought about by import restrictions.

[1] End of Chapter X.

[2] See for example, Chapter X, p. 143, footnote 1, point (2).

In addition to the difficulties of relating general economic conditions to the maintenance of currency restrictions on imports, the actual data for prices do not always present a correct picture, because possible price changes have been prevented by government induced or state controlled *rationing*.[1] In other words, statistics of prices lose their meaning because they do not represent free prices. The price of butter in Germany remained the same in spite of temporary severe restrictions on imports. This did not mean that there was no shortage. Rationing took the place of a higher price. The same was true for a large number of raw materials.

Still, from the point of view of all countries which have introduced restrictions, rationing of restricted commodities is the exception rather than the rule. For this reason it may be well to begin the study of the results of currency measures with a brief theoretical consideration of the effects of an exchange restriction on the price of the commodity affected. Once the effects which currency restrictions tend to have on prices, production and the profits of importers have been shown in theory, it is possible to verify some of the conclusions by examples from the real world.

The purpose of the subsequent analysis is to show first how an import restriction (through exchange control) will tend to bring about a rise in the price of the commodity concerned, and, secondly, how it will tend to increase the profits of importers.

Assume that the monetary authorities fix the amount of foreign exchange which may be spent on a particular import commodity during a subsequent period at a certain percentage of the value of imports during a corresponding period of a preceding year. Assume, too, that in spite of the decline in domestic demand and the commodity's foreign price, the present demand for the import article in question is greater than may be satisfied by the amount allowed by the authorities. The process of the increase in the price may be illustrated by an ordinary partial equilibrium diagram.[2] Readers not interested in the different steps of this analysis may turn to page 209 for its conclusions without impeding the understanding of the subsequent discussion.

[1] See Chapters XV and XVI on certain incidents and aspects of price control in different countries.

[2] The diagram is constructed in the same way as the one used in Chapter XIII, p. 201.

Fig. 11 shows the relation between demand and supply of a given commodity in country A. Quantities of imported product are measured along the x-axis, unit prices along the y-axis. Curve D/D is the importers' demand curve. It is derived from the demand curve of the consumers which lies above that of the importers. It is assumed that normal profits are always proportionate to unit price and it is therefore not necessary to draw a second curve. S/S is the supply curve in Country A of the commodity exported by Country B; the effective demand in

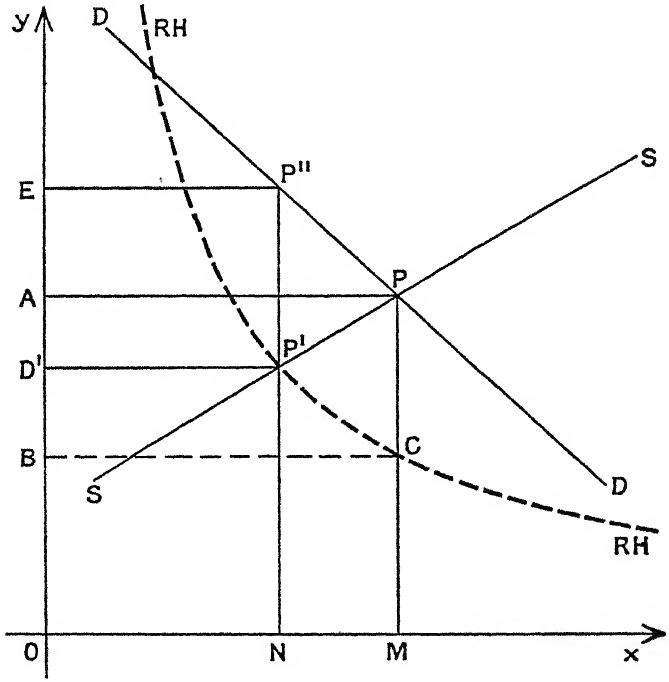

FIG. 11

Country B and outside Country A generally has been subtracted from Country B's total supply curve so that S/S represents the supply of B-product in Country A alone. The curve is positively inclined indicating that Country A is important enough to influence Country B's supply price in Country A. Before the introduction of the restriction the price had been established at point P, quantity OM was imported and an amount of foreign exchange represented by the rectangle OMPA was acquired in the foreign exchange market for the payment of OM.

This outlay (in foreign exchange) is to be reduced by 50 per cent, i.e. to an amount represented by the rectangle OMCB. No matter what the price or quantity of the commodity imported, expenditure must not be larger than OMCB. The demand of importers therefore must move along a curve which passes through point C and for which x·y is constant, i.e. the rectangular hyperbola RH. The new price which importers will have to pay will establish itself at P′, i.e. the point where the new (artificial) demand curve meets the original supply curve. Quantity ON will now be imported, and since the area of rectangle D′P′ NO is equal to that of rectangle BCMO the amount of foreign exchange which has to be paid for the new quantity imported is equal to 50 per cent of the value of the former quantity OM. But the fact that a restriction has been imposed on a commodity does not mean that the demand for it has declined. If it has remained stable—a condition assumed on our diagram—consumers as a whole will be willing to pay P″ for the reduced quantity ON. A special profit equal to the area D′P′P″E will, therefore, accrue to importers as a group. This extra profit cannot be competed away, for the extra profit is not due to the issue of licences but to the difference between the internal price—risen because of the reduction in supply—and the external price—fallen because of the reduction in demand.

It may be shown that in the case where the import trade in the commodity in question was in the hands of a monopolist *before* the introduction of the exchange restriction, the quantity imported will not be reduced below the amount corresponding to the limitation of outlay. If, however, an import monopoly is established after the restriction has come into force, it may pay the new monopolist to restrict the quantity below this level.

These first results may be restated thus:—

(1) A currency restriction will raise the price of the commodity affected to the consumer if the legal reduction in the permitted expenditure (in terms of foreign exchange) makes necessary a reduction in the imported quantity.

(2) Similarly, importers will derive a special profit per unit if the legal reduction in the outlay necessitates a reduction in the imported quantity.

(3) This special profit will be the greater the larger is the importance of the restricting country in the market of the commodity concerned.

(4) All results are reached on the basis of a *given* demand curve, i.e. given reciprocal reactions on the part of consumers to changes in price or quantity of the import commodity concerned, and of a *given* restriction on the demand for foreign exchange.

The increased unit profit on the restricted import products

will remain as long as the difference between the domestic and the external price is maintained. An increase in the foreign price does not necessarily reduce the total amount of the extra profit, for the necessary restriction on the quantity may make good what is lost through the higher foreign price. But a fall in the domestic price will always lead to a reduction of the extra profit. Such a fall may be the result of a decline in domestic demand which occurs independently of the introduction of other import restrictions. But if import restrictions are simultaneously introduced on other commodities, the fall in demand may arise as a result of the effects of other restrictions. The fact that some imported commodities become more expensive may result in the decline of demand for other imported products.

Now examine some of the actual results of import regulation by exchange control; not the general results from the point of view of equating current demand and supply of foreign exchange, but the immediate consequences of import restrictions. Most of the examples are taken from the initial stages of exchange control systems for the following reasons: First the effect of particular forms of restrictions are best seen at the beginning of their operation. Changes are then generally of an absolute nature and may be compared with the preceding data concerning the *same* area. In the later stages they may only be observed in relation to similar data in *other areas*. The effects of particular restrictions ought to be observed at a time when they do not tend to be counteracted or changed by other measures or policies simultaneously put into operation.

In a number of countries imports increased abnormally before the introduction of restrictions. Different causes may be responsible for such a development. To some extent anxiety may be felt as to the government's intention or ability to maintain the stabilized value of the currency. Importers increase their purchases in order to obtain as large an amount of foreign commodities as possible before they have to pay higher prices on account of the depreciation of the currency. The public increase their purchases of durable consumption goods in the anticipation of rising prices as a result of a possible suspension of the gold standard. Thirdly, the prevention of capital exports may lead to the spending of formerly hoarded funds and therefore to a temporary stimulation of buying activity.

Once exchange control has been introduced the fear of a depreciation may be reduced, but in its place there will tend to arise an anxiety about the future possibilities of buying imported

commodities. This cause of an increase in imports, before the actual introduction of restrictions on the products in question, is probably one of the most important. A good example of such an increase in imports and the resulting *holding* of stocks may be found in the statistics of the municipal warehouses of Vienna. Raw materials were still treated quite leniently at the time from the point of view of foreign exchange allotment; an increase in stocks was therefore possible.[1]

WAREHOUSE STOCKS, MUNICIPAL WAREHOUSES, VIENNA, 1930, 1931[2]
(Insured value of goods in 000's Schillings)

	1st Quarter	*2nd*	*3rd*	*4th*
1930 .	3,963	10,648	9,570	6,391
1931 .	3,902	8,459	9,307	13,348

The figures show an increase from the third to the fourth quarter in 1931 while there was a decrease in stocks in the corresponding period 1930. In spite of the fact that the National Bank of Austria had begun to control imports with a view to satisfying the demand for raw materials first, imports of a large number of "dispensable" foreign articles were higher at the end of 1931 than in 1930. The importers of such commodities must have obtained the necessary foreign exchange in the "black" market at a premium or obtained these commodities on credit. The following figures show that the importation of commodities which were expected to be restricted through licences increased from October–November, 1930, to the same period in 1931. It was impossible to limit imports to necessities.

IMPORTS OF CERTAIN COMMODITIES INTO AUSTRIA, OCTOBER-NOVEMBER, 1930 AND 1931.
(In meterzentner)

	1930.	*1931.*
Tropical goods . . .	28,452	28,904
Tropical fruit . . .	70,998	72,555
Other fruit . . .	161,259	171,435
Leather goods . . .	549	566
Rubber goods . . .	4,593	5,031
Certain wollen goods .	193,537	226,410

The same tendency of increased buying will also take place in the home market, especially if lists restricting certain commodities have been published before the actual limitations have come into force. Prices are expected to rise and the public endeavours, probably unsuccessfully, to satisfy their demands

[1] The increase is not connected with a sudden decrease in production. The figures show that *lower* stocks were maintained during the first six months of 1931 than in the corresponding period, 1930.

[2] Published in *2nd Quarterly Report of League of Nations Commissioner for Austria,* Appendix X, p. 29.

before the effect of the restrictions make themselves felt on the market. When it became known in Hungary that textile goods and materials had been put on the list of goods needing an import permit, sales of cotton goods showed an increase of 82 per cent over the corresponding period of the preceding year, and woollen articles an increase of nearly 20 per cent.[1]

Internal statistics of foreign exchange allotment have been published for some countries, and in the case of some others the general practice of the authorities is known. Both types of information show that the actual demand for imports was considerably higher than the allotment of foreign exchange. The assumption of a relatively high demand, made in connection with the earlier theoretical considerations, is shown to correspond very closely to reality. The statistics for the early years of exchange control are best suited to show that the demand at the *official* rates of exchange was considerably above the amounts which various monetary authorities were able (or willing) to satisfy. Figures comparing applications for foreign exchange with actual allotment have less meaning, from this point of view, in later years of exchange control when it became the practice of central banks to charge "exchange premia" on certain import goods.[2]

Examine some of the figures in the reports of the League of Nations Commissioner for Hungary. From August, 1931, to June, 1932, for example, importers applied for 341 million Pengö worth of foreign currencies. They were actually allowed 169 millions. Of this amount, only 136 millions constituted actual allotment, i.e. funds at the official rate, the rest was made up of permits to carry out certain compensation transactions.[3] The same set of figures concerning the internal operation of exchange control gives some idea of the way in which raw materials and finished products took precedence over other products in Hungary during that time. Although the application for raw materials and semi-finished products (i.e. goods purchased, often directly, by the industries concerned) made up only 59 per cent of the total, the figures for the actual allotment of foreign exchange show that 67 per cent

[1] See *3rd Quarterly Report of the League of Nations Commissioner for Hungary*, pp. 12–13.

[2] See *infra*, Chapter XVI, p. 247 ff. et seq.

[3] In the case of these, the importer was probably obliged to pay a premium to the exporter for letting him have a certain amount of foreign currency.

of the permits went to industry. On the whole the applications were satisfied to the extent of about 50 per cent during the first fourteen months of exchange control in Hungary.[1] No further figures of the relation between applications and allotment have been published. It may be assumed that when the scope within which importers could legally buy foreign exchange directly from exporters was increased (while at the same time the National Bank began to charge premia), the discrepancy between applications and allotment became smaller.

In other countries the relation between applications and allotment seems at times to have been less close than in Hungary. Some figures have been published by the Danish Valutakontor in the Report to the Parliamentary Commission dealing with import control.[2] For the three months period, June to August, 1932, Danish importers applied for 540 million Kroner worth of foreign exchange. The Exchange Officer only granted permits to the value of 140 millions. These figures not only show a very much higher demand than the authorities could satisfy from current supplies even at the depreciated value of the Danish currency, but they also indicate two further effects of import control through currency measures.

The first of these is general. If a licensing system is introduced importers ask for higher amounts than they actually need. Danish importers applied for 540 millions for June–August, 1931, while during the corresponding period of 1930 total imports had only amounted to 352 millions. Even when the devaluation of the currency which raised the prices of imports from *some* countries is taken into consideration the amount must still be much higher than the actual needs of the import trade. This tendency on the part of importers increases the difficulties of a just allocation (i.e. proportionate to the demands) of foreign exchange for different uses.[3]

The second conclusion drawn from these figures concerns Denmark alone and is introduced here as a digression: the actual allotment in 1932 was lower than 45 per cent of the value of imports in 1931. According to the provisions of the Danish Law establishing import control, this could only be done "if the interests of foreign commercial policy demanded

[1] See *3rd Quarterly Report, Hungary*.
[2] See *Industrie und Handel*, 14th May, 1932.
[3] See Chapter X.

it ". The contention that one of the chief objects of the Danish regulation was to direct foreign trade into new channels seems to be borne out.

Another case where only a small proportion of the demand for foreign exchange was satisfied was the operation of exchange control in Estonia during the autumn months of 1932. The current supply of foreign exchange to the Central Bank of that country shrank to such an extent that the authorities—not expecting an increase in the near future—resorted to a system of weekly repartition among imports of the incoming supply. According to reports in the German commercial Press only 20 per cent of the demands for raw materials and food products could be satisfied.[1] During the early days of exchange control in Austria the story was told that an importer of eggs who had applied to the National Bank for $3,000 actually received only $40.[2] Although for different reasons the discrepancies between demand for foreign currencies and allotment by the monetary authorities tended to become smaller as time went on, there can be little doubt that imports would have been considerably higher in most countries in the absence of foreign exchange restrictions.

Actual imports, however, did not generally decline as much as the severe limitation of foreign exchange sales by the central banks would lead one to suppose. In many countries the current supply of foreign exchange to the central banks was small because exporters failed to sell their proceeds to the monetary authorities at the official rates. Although there were laws compelling them to do so, the risk of punishment was frequently smaller than the gains which could be made by selling foreign exchange in the " black " market, i.e. selling it at a premium to those who were refused allotment by the central banks. Apart from the possibilities of trade via clearings, importers were thus enabled to satisfy part of their demand for foreign exchange by buying it directly from exporters.

The Hungarian statistics of the operation of exchange control show that a large proportion of imports was paid for in other ways than through allotment by the central bank. The following table shows the value of actual imports and the amount of foreign exchange allotted by the National Bank of Hungary.

[1] See *Industrie und Handel.*
[2] See *Wiener Abendzeitung*, 9th October, 1931.

IMPORT CONTROL IN HUNGARY [1]

October–December, 1931; January–December, 1932. 000,000 Pengo.

Period.	*Actual Imports.*	*Foreign Exchange Allotted.*	*Extent of Allotment to Actual Importers.*
October, 1931	40·3	5·3	13·0
November, 1931	34·8	8·0	23·0
December, 1931	41·8	7·9	18·9
January, 1932	27·8	10·2	36·7
February, 1932	26·1	11·3	43·3
March, 1932	31·1	9·4	30·2
April, 1932	26·2	9·4	35·9
May, 1932	28·2	10·9	38·6
June, 1932	29·8	10·0	33·6
July, 1932	23·7	9·6	40·5
August, 1932	25·2	8·5	33·7
September, 1932	26·2	7·9	30·2
October, 1932	27·5	13·4	48·7
November, 1932	30·8	9·5	30·8
December, 1932	34·3	13·1	38·5

The figures show that the discrepancy was greatest during the initial period of control and became smaller in 1932. Certain months in 1933 show a relation of almost 70 per cent, an indication that other methods became less disadvantageous in relation to the time and "trouble costs" involved in applying for foreign exchange to the National Bank. To the extent that clearing agreements did not bring about a natural increase in the difference between the value of official foreign exchange allotment and that of actual imports, the introduction of regulations which provided that imports must be accompanied by exchange permits [2] must have contributed to the decrease in this difference in many countries.

But in the cases where these regulations were either non-existent or not strictly enforced the discrepancy was maintained. In Bulgaria, for example, where the law provided for a 50 per cent reduction in the quantity of imports for that period, actual purchases of foreign commodities decreased only by 30 per cent from 1931 to 1932.[3] The figures for Austria during the first nine months of exchange control tell a similar story. While the National Bank had allotted only 233 million Schillings worth of foreign currencies from 10th October to 30th June, actual imports during that period amounted to 1,258.[4]

[1] The figures are taken from different Quarterly Reports of the League of Nations Commissioner for Hungary. [2] See Chapter X.

[3] The smaller decrease was not due to a drop in prices since the decline in values was taken into consideration, see also Chapter VI.

[4] See *3rd Quarterly Report of League of Nations Commissioner for Austria*, p. 9. The reports give quarterly figures until the end of 1932. The period October to June has been chosen in the text, since after that time so-called "private clearing" became very important.

The discrepancies between foreign exchange allotment and actual imports were made possible not only by illegal trade in foreign currencies but, as time went on, by a large number of clearing and compensation arrangements. The liquidation of "frozen debts" in other exchange control countries also helped to reduce the amount of foreign exchange actually sold to importers by central banks in relation to the total value of imports. There is good reason to believe that the proportion of demand satisfied in illegal markets was considerably greater in Southern and Eastern Europe than, for example, in Denmark or Germany. The smaller the proportion of the total value of imports which could be satisfied from sources outside the central banks, the more, *ceteris paribus*, is an increase in the prices of import products due to the actual limitation. But the rise in prices is inevitable. First one may examine a few actual cases of such increases, i.e. of the prices of individual commodities. Cost of living indices are best considered after some of the effects of import regulation on the domestic production of various restricted commodities in different countries have been shown.

In *Austria* the rise in the price of imported goods began with the introduction of limited allotment by the National Bank. Textile and tropical products seem to have been affected most. Coal immediately went up by 5 per cent.[1] A list of commodities published in the *Oesterreichische Volkswirt* roughly one year after the introduction of exchange control shows the differences in price which existed at that time between Vienna and certain other European cities. The prices are calculated on the basis of the official value of the Schilling. Since the difference is in many cases considerably greater than the premium paid in the "private clearing" and the illegal market, import restrictions must to some extent be responsible for it.

WHOLESALE PRICES OF CERTAIN PRODUCTS IN VIENNA AND OTHER CITIES, JULY, 1932

(Schillings per Meterzentner)

	Vienna.	*Prague.*	*Berlin.*	*Amsterdam.*
Wheat (flour) . .	64·50	46·20	56·16	29·63
Beef	260·00	210·00	106·00	222·00
Pork	260·00	196·00	87·00	95·00
French Eggs (100) .	11·00	8·40	10·41	8·37
Prod. Iron . . .	43·50	28·35	18·65	12·98
Coal	8·56	4·36	1·86	—
Cement	8·45	5·57	6·20	2·39

[1] See *Wiener Abendzeitung*, 9th October, 1931.

RETAIL PRICES OF CERTAIN PRODUCTS IN VIENNA AND OTHER CITIES, JULY, 1932

(Schillings per Kilogramme)

	Vienna.	*Prague.*	*Berlin*	*Amsterdam.*
Beef (first quality) .	3·20	2·77	2·32	2·90
Pork (first quality) .	4·40	2·94	2·02	2·46
Butter	5·20	4·83	4·56	4·04
Coal	0·10	0·07	0·03	0·07

For some of these commodities differences in price, of course, always do exist, but they have increased since the introduction of exchange control.

Hungary also offers a number of examples of the effect of import restrictions in raising domestic prices of the affected products. By the end of the year 1932 the price of raw wool had fallen by about 23 per cent since 1931, but the prices of Hungarian woollen goods remained at the same level. In the case of cotton goods the "profit margin" had increased by 18 per cent.[1] In other words, although the price index of the types of raw cotton which Hungary usually imports had fallen from 102 to 76 (January, 1931, to October, 1932), there was only a decline from 97 to 92 in the domestic index for cotton yarns; the index for cotton textiles fell only by about 15 per cent while the raw cotton index fell by about 25 per cent. In the case of wool the raw material index fell during the same period from 82 to 64, while the index for woollen textiles declined only from 145 to 143.[2]

It is remarkable how import restrictions sometimes tend to lower the elasticity of demand for the commodities concerned. Under normal conditions shortages of supply are rarely expected to last very long if the market is at all developed. But if a shortage is known to be caused by a governmental restriction the anxiety concerning future supplies tends to have a much greater effect on ruling prices. This was shown quite clearly in Denmark. For example in 1935 it was known that during a particular permit-period there would be a shortage of a few per cent in the domestic supply of coffee in comparison with the average demand in former years. This knowledge was enough to allow a profit from 60 per cent to 70 per cent to coffee importers for a considerable time. The same was true for prunes some time in 1935. This example is of particular interest for it showed the

[1] See a report by Mr. Eber, President of the Budapest Chamber of Commerce, *Industrie und Handel*, 16th December, 1932.

[2] The figures are based on calculations made by the Hungarian Statistical Office; they were published in the *5th Quarterly Report of the League of Nations Commissioner for Hungary*, p. 10.

change in price to be reversible. At that time a suggestion was made by a semi-private source to restrict entirely certain products within a particular group of import articles while letting in the rest of the group free. If not always suitable from the point of view of commercial policy, this system would not necessarily have interfered with the objects of currency policy. From the point of view of harming the mass of consumers as little as possible, the suggestion had a great deal to be said for it. In any case it was actually adopted for some time in the case of the group including prunes. Most of the other commodities were restricted outright while prunes were allowed to come in without restriction; their prices fell immediately by quite a considerable amount.

As in the case of quota countries, governments have attempted to prevent increases in the prices of restricted commodities. The prohibition to trade in licences did not have the desired effect. It may, in some cases, have prevented the creation of new monopolies which might have led to a greater reduction of imports than was warranted by the limitation of the outlay in foreign currency, but on the whole this provision was powerless since it was fighting against the wrong cause.

Rationing and other forms of *domestic* government regulation have been used with some success. Frequently the use of certain raw materials or semi-finished products has been prohibited for the domestic manufacture of certain products. A regulation of this kind must needs increase the price of the domestic or foreign substitute, provided it may still be sold freely. But it will undoubtedly help to maintain the price of the commodity in question at a lower level than it might otherwise have reached. Germany is, of course, the country to-day where the domestic use of the majority of import products is thus regulated. The large restrictions are known: the compulsory admixture of artificial textile fibres in the manufacture of cloth, the limited use of copper for ordinary piping, the recent use of potato flour in the baking of bread.

Two small examples may illustrate how far this process of progressive regulation from import prohibition or limitation to the manufacture of domestic products has gone. In October, 1935, the Chairman of the Association of German Sweet Manufacturers forbade the use of cream in the manufacture of certain types of chocolates. Milk could still be used but not cream.[1] Butter was short because of import restrictions. In order to assist the authorities in the difficult task of maintaining the

[1] See *Frankfurter Zeitung*, 31st October, 1935.

fixed price of butter everything was done to increase domestic production. During the same month a regulation of the Office of Supervision for Industrial Fats was put into force. It decreed that ordinary putty could contain no more than a certain percentage of linseed oil.[1]

In order to prevent prices from rising, export prohibitions have been decreed. In this way, it must at times have been possible to achieve the same result by two mutually contradictory regulations as could have been obtained by no regulation at all.[2] Though Germany is probably the most lucrative field for examples of meticulous regulations designed to prevent internal prices from rising, other countries have also introduced measures of this kind from time to time. One of the products prohibited by the import control authorities of Greece was tinfoil. In order to prevent a possible rise in the price of chocolate wrapped in this material, the cigarette manufacturers were compelled to sell their stock of tinfoil to the manufacturers of chocolate[3] at a fixed price.

Price fixing of restricted import commodities, of course, is one of the methods most frequently resorted to. The Danish law of import control makes "unreasonable increase of prices" an offence. Article 11 reads[4] :—

> "The Minister of Trade, Industry and Shipping shall be authorized, on the appearance of complaints in writing, with statement of reasons, of unreasonable increase of prices as a consequence of the limitation of imports, to examine the justification of the complaint by which no information necessary for the adjudication of the case shall be withheld from the Minister. If it, after the investigation, be found that unreasonable increase of prices has taken place, the Minister may decide to hand over the case for public investigation by the prosecuting authority. If unreasonable increase of prices has taken place, it is for the court to decide whether confiscation under par. 12, subsection 2, is to take place and the import-licences granted to the tradesman in question are to be cancelled, and whether the tradesman in question shall be excluded from allotment of import-licences on the basis of former import right."

The question is now whether, in spite of all these regulations,

[1] See *Frankfurter Zeitung*, 16th October, 1935.

[2] On the 19th December, 1935, the German Minister of Economic Affairs prohibited the export of raw rabbit hides; *Frankfurter Zeitung*, 21st December, 1935.

[3] See *Devisenrecht der Welt*, 1st supplement (1933), p. 16.

[4] Official Danish translation.

import trade has, on the whole, gained in different countries. Apart from the efficacy of governmental price fixing this depends on a number of conditions. Given the same possibilities of evading the government's fixing of prices, the presumption is that importers in countries which constitute an important market have a greater chance to make good the losses arising from a restriction in their turnover by an increase in unit profit.

It may be observed in many countries that the initial opposition on the part of wholesalers has gradually died down. In fact, their original objections to control through licences, have now generally given way to a desire to maintain the existing position. The special profits which may be derived from being a licence holder must frequently have been considered higher than normal unit profits without licences. The information which may be obtained by private importers in the countries concerned is too varied to allow of a general statement. However, if it is not actually the case that importers, as a group, benefit from the existing restrictions, there is a fair possibility that they do. And this is true even under conditions of increased domestic production of restricted import articles.

As was shown in Chapter XII, there is no necessity that total domestic production should increase as a result of shutting out certain quantities of products formerly imported. The effect of higher prices for certain commodities is to change the relative profitability of different industries. But the fact that certain goods are now produced in country A while they were formerly bought from country B implies (quite apart from the effects of a decrease in the incomes of B-nationals on account of the reduction in their sales) that the production of other A-commodities will tend to fall. This is true even under conditions of unemployment of men and resources, for, as has been repeatedly emphasized throughout this study, not all factors of production enjoy the protection of cartels or trade unions. Therefore the increase in the production of particular commodities will raise prices of *some* factors in the system and thereby increase costs in other industries which may force them to contract. This study is not concerned with the general consequences of exchange control on the development of the balance of payments at the fixed rates of exchange, but rather with the more immediate effects of particular methods of the regulation of international trade. The development of total production, however, is bound up with the development of the balance of

payments, i.e. the effects of all currency restrictions which together make up a system of exchange control. Let us therefore confine discussion of the effects of import restrictions on domestic production to cases where the connection between the increase in a *particular line* and the restriction on a *particular product* is certain, or almost certain.

According to the *1st Quarterly Report of the League of Nations Commission for Austria*[1] there was, after the introduction of exchange control in that country, an immediate improvement in a number of industries which were able to supply goods hitherto imported from abroad. Lignite mining showed an immediate response to the higher price of coal.[2] The higher level of production in this industry was maintained for a long time. At the end of 1932 the mining of lignite showed further increases at a time when there was reason to believe that foreign fuels were again kept out.[3]

The introduction of exchange control in Hungary had a similar result. One of the industries showing the most marked improvement at the beginning of limited foreign exchange allotment by the Hungarian National Bank was coal mining. Although the industrial demand for coal decreased at the end of 1931, Hungarian mines were able to supply a greater amount of coal for house burning. Coal imports had needed permits even before the introduction of the general goods lists.[4] After the restrictions came into force some new investment in coal mining actually took place. And while the quantity mined during the first six months of 1931 was lower than during the corresponding period of 1930 (310,514 wagons in 1931, 340,504 wagons in 1930), production for the second half of 1931 stood at 378,259 wagons as compared with 358,061 for 1930.[5]

Other industries which increased their activity in Austria at the beginning of import restrictions were paper[6] and shoes. Employment statistics for the second of these show a substantial increase over the preceding year. The following table illustrates the development :—

[1] See p. 11.
[2] See *supra*, p. 216.
[3] See *5th Quarterly Report* (*Austria*), p. 11.
[4] A decree of 1st October, 1931 (No. 5210, 1931) made importation of coal, lignite and coke subject to special licence.
[5] See article by E. Hubert, "Die Kohlenwirtschaft," in *Ungarisches Wirtschaftsjahrbuch*, 1932, p. 106.
[6] See, however, *infra*, p. 228.

NUMBER OF PEOPLE EMPLOYED IN THE AUSTRIAN SHOE INDUSTRY.
INDEX NUMBERS (1929 = 100) [1]
July-January, 1930–1 and 1931–2.

	1930–1.	*1931–2.*
July . .	93	83
August .	101	82
September .	104	96
October .	104	105
November .	101	106
December .	97	106
January .	81	95

Other industries which reacted immediately to absolutely or relatively higher prices in Hungary were the manufacture of rugs, furniture coverings and tool machinery, some of them reopening factories which had been closed for some time.[2] Leather and glass followed in May, 1932.[3]

In Denmark the importation of all manufactured articles, as stated earlier,[4] required special permission from the Valutakontor of the National Bank. One may attribute the progress in a considerable number of domestic industries, therefore, to the protectionary effects of the existing currency measures. After what has been said in the theoretical sections of Chapter XII ("The Effects of Quotas on Trade, Prices, and Production") the reader will not regard this improvement in domestic manufacturing industries as necessarily an advantage to the country from the economic point of view. The increase in cost of living figures from 1931 to 1935 was higher in Denmark during that period than in any other exchange control country but one.[5]

On the basis of 1931 = 100 an index for imports of industrial products in comparison with an index of all imports developed in the following way :—

THE DISTRIBUTION OF IMPORTS INTO DENMARK.
INDEX NUMBERS (1931 = 100) FROM 1929–1933 [6]

	1929.	*1930.*	*1931.*	*1932.*	*1933.*
Index of Industrial Imports .	107·6	116·0	100	62·4	69·2
Index of All Imports . .	122·4	118·0	100	78·0	84·0

[1] Figures calculated by the *Wiener Kammer für Arbeiter und Angestellte*, reprinted in *Monatsberichte des Oest. Instituts für Konjunkturforschung*, February, 1932, p. 31.
[2] See *Monatsberichte des Oest. Inst. f. Konjt.* February, 1932, p. 40.
[3] Loc. cit., May, 1932, p. 87.
[4] See Chapter X, p. 137 et seq.
[5] The index for Greece rose even more, but in this country depreciation of the currency had also gone farthest.
[6] This information, in addition to much other valuable assistance in the description and analysis of the Danish system of import control was made available through the kindness of Mr. F. Christiansen, Copenhagen, who has allowed the author to read his unpublished manuscript on the effects of Danish exchange control.

The table implies that industrial articles were restricted more than other articles. Although this change in the relation between the two series does not *prove* particularly unfavourable treatment of industrial articles, the following series bear out the above contention to some extent. They show that for a number of manufacturing industries the rate of increase in production increased from 1931 to 1933 over 1929 to 1931.

RATE OF CHANGE IN PRODUCTION FOR A NUMBER OF DANISH MANUFACTURING INDUSTRIES FROM 1929 TO 1931 AND FROM 1931 TO 1933

Industry.	*Increase or Decrease 1929–1931.* %	*Increase or Decrease 1931–3* %
Textiles . .	+ 3·2	+ 28·6
Clothing .	—	+ 27·4
Leather .	− 11·1	+ 58·5
Wood . .	+ 12·8	− 9·1
Glass, Stone .	− 3·3	+ 5·1
Iron, Metal .	− 9·6	− 15·7
Technical .	—	—
Chemical .	+ 8·8	+ 8·1

While for textiles and clothing the rate of increase went up at an increasing rate in the second period, a decreasing rate in the first period changed to an increasing rate in the second period for the leather industry and for manufactures of glass and stone. The rate of development of the manufactures of "technical" and "chemical" articles was just maintained, while in the case of general iron and metal industries as well as in that of the wooden goods industries, the rate of decrease intensified or was changed from an increasing rate to a decreasing rate respectively. Looked upon in their entirety the figures tend to show that even in the Danish case an increase in the production of all manufacturing industries was not possible.

Whatever may have happened to production as a whole in exchange control countries, and to costs of living during the period 1931–5, there is one line of production which showed increases in the majority of countries under consideration, namely the manufacture of textile goods, half-finished and finished commodities. Some instances of this extraordinary development are :—

In Austria the production of cotton yarns was one of the first textile articles to respond to the National Bank's import restrictions.[1] The fact that the cotton goods industry as a whole showed an increase in the utilization of its equipment, after a number of years of decline (from about 74 per cent in September

[1] See *1st Quarterly Report* (*Austria*), p. 11.

to about 80 per cent in November, 1931; 1929 = 100), was attributed by the Austrian Institute for Trade Cycle Research to the effects of import restrictions.[1] Employment figures for cotton and other textiles show the same development.

AUSTRIA: COTTON SPINNING AND WEAVING. TEXTILE PRINTING
Number of people employed; index numbers 1929 = 100;
July-January, 1930–1, 1931–2 [2]

	1930–1.	*1931–2.*	*1930–1*	*1931–2.*
July . .	73	64	97	70
August .	71	64	101	75
September .	69	62	101	72
October .	68	63	97	67
November .	68	66	91	69
December .	68	68	79	69
January .	68	70	79	72

While there was a definite downward trend or at least stagnation during July–January, 1930–1, in both these industries, they show a relative and, in one case, an absolute increase during the same period in 1931–2. The development was even more marked in the case of linen :—

NUMBER OF PEOPLE EMPLOYED IN THE AUSTRIAN FLAX-SPINNING AND LINEN-WEAVING INDUSTRY
Index numbers (1929 = 100) [3] July-December, 1930 and 1931

	1930–1.	*1931–2.*
July . .	100	84
August .	88	83
September .	93	82
October .	87	88
November .	85	90
December .	76	96

The improvement in the Austrian textile industry was not maintained very long. The effects of import regulation had spent themselves by the end of the first quarter of 1932. Nevertheless, until that time improvement was quite steady. The index for the production of cotton yarn, calculated by the Austrian Institute of Trade Cycle Research and eliminating seasonal fluctuations shows the development quite clearly :—

PRODUCTION OF COTTON YARNS IN AUSTRIA [3]
Index numbers 1923–1931 = 100. July-February, 1930–1 and 1931–2

	1930–1.	*1931–2.*
July . .	99·24	91·70
August .	102·45	101·97
September .	103·75	102·08
October .	106·37	106·00
November .	100·39	110·25
December .	94·52	110·75
January .	90·55	103·82
February .	90·31	111·25

[1] See *Monatsberichte des Oest. Inst. f. Konjt.*, December, 1931.
[2] See p. 222 *supra*, footnote 1.
[3] See *Monatsberichte des Oest. Inst. f. Konjt.*, April, 1932, p. 64.

In Hungary even raw materials were restricted at first so that the relative stability of the prices of textile goods, which began with the introduction of import control, did not lead immediately to an increase in the production of textile goods as it might otherwise have done,[1] but by April, 1932, the influence of higher prices for textile goods began to have an effect on the production of such articles.[2] This development continued in Hungary throughout the period of exchange control.

Another country where the production of textile articles increased considerably as a result of import restrictions was Bulgaria.[3] In 1929 Bulgaria imported 18,178 thousand tons of finished textile goods, but by 1934 the figure had come down to 13,868. The quantitatively largest decrease occurred in cotton yarns, from 6,606 to 3,018 thousand during the same period. Materials went down from 1,200 in 1929 to 250 thousand in 1934. During the same period the imports of raw cotton increased from 1,920 to 7,206 thousand tons, while the domestic manufacture of cotton goods increased by about 3 million tons from 1929 to 1933. The substitution in weight of domestic for foreign products probably needs downward adjustment for internal production, since it may be presumed that Bulgaria produced coarser kinds of articles than those formerly imported, i.e. needed heavier types of raw cotton for domestic manufacture. The protectionary effects showed themselves also in the case of certain textile raw materials. While 563,000 tons of flax were imported in 1929, there were practically no imports at all of this commodity in 1934. Almost the same is true for hemp, importation of which decreased from about 2 million tons in 1929 to 824,000 tons in 1934. Domestic manufacture largely took the place of imports from abroad of woollen goods.

The general development of the manufacture of textiles in some of the countries during the period 1928 to 1934 is shown in the following table.

INDEX NUMBERS OF INDUSTRIAL ACTIVITY IN THE TEXTILE INDUSTRIES OF A NUMBER OF EXCHANGE CONTROL COUNTRIES, 1928, 1933, 1934

(Base: Average 1925–9 = 100 [4])

Country.	*1928.*	*1933.*	*1934.*
Rumania .	90	159	182
Greece . .	116	157	178
Denmark .	96	149	168
Hungary .	108	114	136

[1] See *Oesterreichischer Volkswirt*, 12th September, 1931.

[2] See *Monatsberichte des Oest. Inst. f. Konjt.*, May, 1932, p. 87.

[3] The following information has been obtained partly from an article in *La Bulgarie*, Sofia, 1st October, 1935, and partly from a private source.

[4] Figures taken from a larger table in *World Economic Survey, 1934–5*, League of Nations, p. 163.

The higher level of industrial production maintained in the case of textiles in some of the countries under exchange control is not a general development. Even if it has been possible to increase in many cases the proportion of domestic demand which may be satisfied by home production of articles formerly imported in greater quantities, there has been no absolute increase in many cases in the production of the particular, restricted articles, and in most cases no increase in total home production. Although such an increase in total home production does not necessarily lead to an increase in the standard of living (and has under conditions of exchange control in many countries most certainly had the effect of keeping such an increase, if it took place, below the level it might otherwise have attained), one can briefly indicate some of the chief reasons for which a maintenance of an artificially induced increase in the production of a particular article tends to be rare.

In the first place there is, of course, the merely technical reason of a change in the allotment of foreign exchange for raw materials. In the course of the development of a system of import restrictions by currency measures the authorities may consider themselves compelled to restrict the importation of raw materials in an attempt to maintain equality of demand and supply of foreign means of payment at the stabilized rates of exchange. What has happened in the case of Hungary at the beginning of control [1] may occur, although perhaps with rather less likelihood, at any stage of a system of exchange control. In Chapter X we showed that the importation of raw materials was limited at certain stages of the Czechoslovakian system of exchange restrictions. The German regulation of the importation of raw materials, which implies not only a limitation of the supply but also the purchase of materials at higher prices than world prices, is well known. But since this reason for a decrease in the internal manufacture of finished products (or a shift to less profitable branches of production) is the result of an independent decision—though possibly arising from the inherent difficulties of the control system—it is, needless to say, not a purely economic cause of the unfavourable development in question.

More important, from the present point of view, are two other developments which will tend to arise as the result of economic changes rather than of " changes in data ". The first of these is a decrease in internal demand for the newly produced

[1] See *supra*, p. 225.

commodity. For if the number of restricted products increases, and with it their prices, the effect of the reduced purchasing power left for other products must be a decline in the demand for some other commodities. Certain peculiar conditions of income elasticity of demand for the initially restricted products may be imagined where subsequent increases in the prices of other import commodities may not lead to a decrease in the demand for the first group. But the tendency with an increase in the number of restricted commodities will be that the production of formerly restricted articles will become less profitable. This may, of course, also be brought about by a rise in the cost of production or by an increase in the relative profitability of other commodities now also subject to import restrictions.

The second and purely economic cause responsible for the unlikelihood that the production of particular articles will be maintained at the level to which it had been carried as a result of the first stimulus, is a decrease in exports. Under the relatively high degree of international specialization in the production of manufactured articles which had been reached before the depression, even technically quite similar products were both imported and exported in most industrial countries. The sudden possibility of satisfying a larger proportion than before of the domestic demand will most probably lead to a rise in cost. Although total home demand in this case did not decrease sufficiently as a result of the higher price to prevent an increase in the domestic production of the article concerned, the export market might not stand the increase in price. True, the foreign demand curve for industrial products will tend to be much less elastic than for agricultural products on account of the more monopolistic position of industrial countries in the production of particular articles. But even if the subsequent decrease (i.e. after the initial increase in total production) is not large enough for this reason to counteract the initial increase, the presumption is that the *shift* in external demand will bring about a net decrease in the end. For if the effect of a country's import restrictions is large enough to cause *by itself* a decline in its customers' incomes, the demand for its exports will fall. The low elasticity of demand for its products in such a case will be no protection against a substantial decline in exports. The conditions postulated in the foregoing analysis were actually present, for example in the case of Austria's paper industry at the end of 1931. As a result of import restrictions there was an improvement in this line of production, but it could not be maintained because

the decrease in exports soon after was greater than the internal increase.[1]

As emphasized earlier, it would not be correct under conditions of exchange control to attribute general changes in prices to the effects of that part only of exchange control which deals with imports of commodities. But there can be no doubt that a large part of the difference in the general development of prices, i.e. of wholesale prices and the cost of living, between exchange control countries and "free" countries was due to import restrictions in the first group. The comparisons in the following table are made between 1931 and 1934, since other influences were at work after that time in the exchange control countries which, though partly working in the same direction, tended to overshadow the effects of import restrictions. Among these must be counted the increasing use of official exchange premia by central banks,[2] certain effects of increased trade via clearings, and the expansive financial policy of Germany.

CHANGES IN WHOLESALE PRICES (GOLD) FROM END OF 1931 TO END OF 1934 [3]

I: Countries with Exchange Control
II: "Free" Countries

I.	%	II.	%
Germany	− 2·6	United States	− 33·4
Hungary	− 15·9	United Kingdom	− 14·8
Austria	− 8·5	Sweden	− 16·4
Czechoslovakia	− 18·1	Norway	− 19·3
Bulgaria	− 16·7	Canada	− 26·2
Greece	− 38·0	New Zealand	− 24·6
Denmark	− 20·0	Australia	− 11·4
Latvia	+ 3·3	Japan	− 53·4
Estonia	− 43·8		

The table shows that prices in the countries under exchange control have been relatively maintained. While the unweighted average fall of prices from 1931 to 1934 is about 18 per cent for the nine exchange control countries, in the eight "free" countries chosen here wholesale prices declined by 25 per cent.[4]

There are a large number of important reasons why the cost of living in the "free" systems did not rise from 1931 to 1934 in spite of currency depreciation in most of these countries. Had an upward adjustment taken place, the differences in the cost

[1] See *Monatsberichte des Oest. Inst. f. Konjt.*, December, 1931.
[2] See Chapter XVI, p. 249.
[3] Calculated from figures published in *World Economic Survey, 1934–5*, League of Nations, p. 42.
[4] The inclusion of less important European countries such as Lithuania, which only introduced exchange restrictions in 1935, would bring down this average even more.

of living between "free" and exchange control countries would not be so great as they are to-day. At the same time downward adjustment in the exchange control countries was relatively small. Measured in gold it approached in no case the decrease in the free countries. The figures in the following table are based on national currencies.

INDICES OF THE COST OF LIVING
I: Exchange Control Countries
II: Free Countries (1929 = 100)[1]

I.	*1931.*	*1934.*	II.	*1931.*	*1934.*
Austria	95	95	U.S.A.	87	79
Bulgaria	80	64	United Kingdom	90	86
Czechoslovakia	96	92	Canada	90	79
Denmark	90	97	Australia	85	80
Estonia	89	74	Lithuania	78	53
Greece	87	101	Japan	75	82
Hungary	86	76			

In the first group of countries the cost of living increased in two countries (Denmark and Greece), remained substantially the same in two (Austria and Czechoslovakia), and showed material decreases in two (Estonia and Hungary). In the second group of countries, where one would have expected material increases in the cost of living, or at least relative increases in comparison with the first group, it increased only in one country (Japan); in three countries (U.S.A., Canada, Lithuania), it fell materially while in two countries it remained substantially the same. The conclusion which may be drawn from these figures is the maintenance of a relatively higher cost of living in the exchange control countries.

Indices of real wages in the two groups of countries also show that the mass of consumers were worse off at the end of 1934 (in relation to 1932) in the exchange control countries. There are a number of reasons for this result. Restrictions on imports, however, in all their effects are largely responsible for the unfavourable development. True, the difference in this respect between the two groups of countries is small, but it is indicative of the tendency.

CHANGES IN THE NATIONAL INDICES OF REAL WAGES FROM 1932 TO 1934
I: Exchange Control Countries
II: "Free" Countries

I.	%	II.	%
Czechoslovakia[2]	− 1	U.S.A.	+ 15
Denmark	− 5	United Kingdom	+ 1
Germany	− 3	Sweden	− 2
Hungary	− 4	New Zealand	+ 1

[1] *League of Nations Statistical Yearbook, 1935–6.*
[2] *World Economic Surveys of 1934–5, 1935–6,* League of Nations.

General conclusions from the results of currency restrictions on imports are these :—

(1) They maintained artificially high prices in the countries of their application ;

(2) Though stimulating production in the beginning, a generally higher level of production has not been maintained ;

(3) They contributed to the decrease in the share of labour in a number of countries ;

(4) They tended to raise the profits of particular sections of the community while harming the standard of living of the rest.

Chapter XV

FURTHER PROBLEMS OF QUANTITATIVE IMPORT CONTROL

It has become a commonplace in modern economic writings to draw attention to the tendency for one governmental measure to lead to the introduction of further regulations designed to counteract the undesirable, and sometimes unexpected, effects of the original measure. The present chapter deals with such secondary measures in so far as they became necessary in the field of foreign trade control. The object of the following analysis is not to find examples for the operation of the obvious tendency alluded to above but rather to throw light on the particular sort of difficulties confronting governments which, though regulating foreign trade, exercise little or no control over internal economic activities.

The loss to individual importers which arises from the reduction in the quantity which may be imported is not always outweighed by the higher unit profits which may be made if the foreign price falls and the internal price rises. For this reason and also because importers expect to make losses, the inducement to evade the existing import regulations is considerable. The most obvious lawful form of evasion is the substitution of a freely importable commodity for the products subject to import limitation ; or the importation of the raw material or half-finished article instead of the finished commodity. Frequently the substitute is also produced at home so that further restrictions become necessary if the original object of maintaining employment or reducing unemployment is to be achieved. Here are a few examples of actual evasions.

In Switzerland the importation of aprons made of rubber was limited by a quota, whereupon the imports of uncut rubber sheets increased, and since rubber manufacturers were to be protected, a further quota for the half-finished product had to be introduced.[1] Certain types of enamelled tin pots were subjected

[1] VIIIth Report, p. 367. The same thing had happened in the case of towels. Finished towels had been restricted. Imports of towel material (not cut into pieces) increased, necessitating the establishment of a further quota. IIIrd Report, p. 440.

to a quota. The result was an increase in the imports of the same article made of cast iron, and a quota was introduced for the substituted article as the authorities intended to protect a new factory manufacturing the product in Switzerland.[1] As a consequence of the introduction of a butter quota in Belgium, a rise occurred in the imports of Dutch and French cream. This result seems to have passed unnoticed for some time, as a quota for milk and cream was only introduced a year later.[2]

At times the authorities foresaw evasions of this kind and limited by one and the same decree possible substitutes for the commodity initially protected. When the Swiss Government intended to grant further protection to the domestic manufacturer of edible oils, it simultaneously introduced quotas on other cooking fats in order to prevent their substitution for the now more expensive oil.[3]

Another form of evasion of existing quota limitations consists of a slight alteration of the restricted product, which puts it into another tariff category. Thus, imports into Switzerland of woollen materials with a slight mixture of cotton or silk yarn increased after pure woollen materials had been subjected to an import quota. To protect the weaving industry, therefore, a quota was introduced for the mixed material.[4] Other textile piece goods had cheap lace sewn on to them in order to escape the restrictions on some other textile materials. Partly sewn piece goods, formerly free, were consequently added to the quota list.[5] When there were no restrictions on embroidered materials certain piece goods were adorned with easily removable embroideries to escape certain other quotas. Needless to say, embroideries were also subjected to import limitations soon after.[6]

A further popular form of evasion consists of the importation of parts of a restricted commodity, or of the commodity itself if its parts fall under the quota list. The importation of bicycles wa restricted in Switzerland when it became evident that more bicycles came into the country as a result of quotas on certain bicycle parts.[7] Dressed hats were put on the quota list, the

[1] See XIth Report, p. 241.
[2] See lists of Belgian quotas (1933), collected and conveniently arranged by G. Brinkmann, *Berliner Börsenzeitung*, 10th November, 1933.
[3] See VIIIth Report, p. 365.
[4] See VIIth Report, p. 367.
[5] See VIIIth Report, p. 267.
[6] See IIIrd Report, p. 468.
[7] See VIth Report, p. 3. Imports of bicycles into Switzerland during a period of falling incomes :—

1931.	*1932.*	*1933.*
2,711	3,128	5,459

result being an increase in the imports of plain hats and of hat decorations shipped as samples. The number of existing quotas had to be increased by two.[1] The government of Estonia prevented this form of evasion from the outset by including the words "and parts" in almost every quota decree.[2]

The ingenuity of importers devised a host of other methods to escape the operation of quantitative import restrictions. Attempts were made to deceive the Customs Authorities by changes from the customary wholesale to retail packing, from the usual form of transport to small postal shipments, and by other means of the same nature. Apart from the lessons which may be derived from these practices by the administrator of foreign trade control, the more important inference seems to be that import quotas have failed in many cases to raise the total profits of individual importers above the level obtaining before their introduction, for if unit profits had risen enough to increase total profits in all cases, importers would have had no reason to go to the trouble of evading existing quota restrictions.

Whatever the effects of import quotas may have been on the total profits of individual importers, the fact remains that profits per unit have risen in all cases where the quota was effective, i.e. where in the absence of restrictions, a greater quantity would have been imported. If licences are issued so that the quantity which may be imported by an individual importer during a given period is fixed, there is no necessary correspondence between the actual demands of the licence owner and the quantity stipulated in the import permits. If some way can be found to transfer the right to import to another person, it is clear that such rights will fetch a price approaching the difference between the foreign and the domestic price, i.e. the profit per unit of imported commodity. Where it became known that such rights were actually transferred, either by selling the licence itself or by selling the imported quantity to another wholesaler at the Customs House, the rise in the price of certain import commodities was attributed to the traffic in licences or import rights. In the theoretical chapter it was made clear that the rise in prices was not caused by the traffic in licences but that a price was paid for the licences because the domestic price of the commodity itself had risen.

Nevertheless, all governments have made the trade in licences

[1] See VIIIth Report, p. 368.
[2] See *Ost. Express*, Berlin (*Wirtschaftsausgabe*), 12th November, 1931.

illegal, partly because they believed it to be a cause of higher prices and partly because it frustrated the operation of the licensing system, to the extent that the latter was designed to bring about a certain fixed distribution of imports among existing firms.

Many cases of the payment of licence premia can be cited. In addition to general statements on the part of official sources [1] and the Press [2] that such a trade was going on in Switzerland, a particular case was related at a conference held by the merchants of Zürich early in 1936.[3] A young importer of fruit who had not been given an import licence paid the owner of a permit from 4,000–6,000 Fr. annually for import rights.[4] The licence holder no longer found it necessary to carry on any trade himself. A similar case was reported by the *Neue Züricher Zeitung* in the summer of 1934.[5] By some accident a small importer had received a licence very much in excess of his ordinary requirements. He also found it more profitable to sell his licence than to carry on the business of importing himself. According to the report of a large public spirited company, the usual licence premium payable for imports of certain types of poultry was equal to 50 per cent of the price at the frontier.[6] The Swiss Government has repeatedly asked the public to report cases of the payment of licence premia. Needless to say, the actual names of those to whom payments were made were never handed in. Importers and traders preferred to pay the premia rather than to wait until at an uncertain future date they themselves were allotted sufficiently large import licences.

In France the trade in quota licences went on during the entire period of quantitative import control.[7] The market in import licences was said to be particularly well organized in Italy.[8] The profit margin on a sack of coffee (of about 60 kg.), which used to be about 15 lire, increased to 60 lire and the premium paid on import rights rose correspondingly.[9] In Greece also the trade in import permits flourished. Higher prices of

[1] See Swiss Government's *Botschaft*, 18th March, 1935, p. 548.

[2] See, for example, *Der Bund*, 22nd May, 1934 (referring particularly to the case of wines).

[3] See *supra*, p. 187.

[4] The *Deutsche Allgemeine Zeitung* of 16th February, 1936, reports the following licence premium: for a wagon (10 c.) of Bosnian plums, 3,000 str.

[5] See *N.Z.Z.*, 13th July, 1934.

[6] See "Ein Leistungssystem im Aussenhandel," loc. cit., p. 47.

[7] See report of discussion in the *Chambre des Députés*, 17th February, 1936.

[8] See *Angelini*, op. cit., 138.

[9] See article by Pietro Mario Beghi, loc. cit., p. 173.

textiles, wood, and particularly of coffee were attributed to the traffic in licences. As a result of import restrictions, the wholesale price of a kilogramme of coffee (Piræus) rose from 54 to 97 drachmœs in 1934.[1] In Poland the importer of coffee was said to have made particularly high profits by selling licences to those who had not been given sufficiently large import permits.[2]

Although very strict laws were introduced everywhere with the object of curbing the trade in licences, the transfer of import rights could not be prevented. The theoretical inquiry showed that the effects of this trade must operate to the disadvantage of consumers if importers held their licences in expectation of a higher price. In such cases the higher price, of course, was the result of a further restriction of the supply, and the blame lies with the administration of the licensing system rather than with the trade in import permissions.

Various governments have attempted to meet the situation caused by the failure of importers to use licences to their full extent by shortening the period of validity of licences. In Switzerland at times quarterly permits were changed to two weekly licences. In other countries licences had to be returned if they had not been used by a certain date. In Greece importers had to deposit their invoices with the authorities, and before the goods could be cleared through the Customs the District Chamber of Commerce had to prove that no transfer in any form had taken place.[3]

Shortening the validity of licences, though possibly reducing the danger that licences would be held in order to boost prices, made it considerably more difficult for importers to take advantage of foreign price changes.[4] The most rational method of preventing the alleged evils of the trade in licences was employed by Holland. When it was realized that all legal prohibitions were powerless to prevent the transfer of import rights and the payment of premiums, the so-called Crisis Import and Export Office created a new department through which licences could be exchanged. The total quota was not to be exceeded, but licences made out for a particular commodity or a particular country could be exchanged sometimes for a more suitable import permit. Though these facilities eliminated the necessity of first selling one licence and then buying another, it did not prevent

[1] See *Eildienst*, 16th April, 1934.
[2] See *Eildienst*, 9th March, 1936.
[3] Decrees of July and August, 1935.
[4] See *supra*, pp. 108–9.

the sale of import rights to those who had no licence to offer in return. In general, then, the trade in quota licences, or the transfer—at the payment of a premium—of the right to import continued. To consumers the trade is largely a matter of indifference. Only if it leads to an import monopoly may its effects be definitely harmful. For in such a case the importer may charge even a higher price than that corresponding to the quota limitation. Apart from the monopoly case, the only effect of the trade in licences is a redistribution of the extra profits.

If prohibition of the trade in quota licences would not do away with these extra profits, the collection of licence fees on the part of the government did have this effect to the extent that such fees were as high as the difference between the foreign price (including customs, freights, and transport charges) and the domestic price. Frequently the official reason given for the collection of licence fees was that the additional costs of quota administration could be covered thereby.

In France licence fees were first charged in 1932 and retained until the present day (1937) after a decree of February, 1933, had confirmed the practice.[1] In this decree the fees were regarded as a source of revenue. It has been claimed that the Government introduced the payment of fees as an additional protective measure, but used the excuse that part of the additional profits accruing to importers could be appropriated.[2] In actual fact the method is a way of reducing the profits of the importers—though, of course, not lowering the prices which consumers have to pay. Unless the tax is so high that imports would be reduced below the quota level the tax is not protective.

The view that the payment of licence fees would raise internal prices appeared again and again in the Press[3] and in official documents.[4] In Rumania the view that an additional protection could be achieved by means of licence fees found expression in a discrimination as to the height of the tax charged on different products.[5] Nevertheless, in some countries the authorities

[1] At the end of 1933, 150 fr. were charged on a quintal of meat articles, 30–60 fr. for the same weight of dried fruit, 50 fr. for fresh vegetables, and from 5–30 fr. for oil cakes.

[2] See F. A. Haight, op. cit., p. 26 and footnote 2.

[3] See, for example, the Swiss *Nationalzeitung*, 1st February, 1932.

[4] See an analysis of the foreign trade of Belgium in the *Vierteljahrsschrift zur Statistik des Deutschen Reiches*.

[5] This was done in connection with the new system of import control in 1934. To the extent that licence taxes were charged on products whose imports were not fixed by quota, the tax will have had an additional protective effect.

seem to have realized that the government's revenue could be increased by collecting such fees without raising further the prices of the taxed commodities. Thus in Belgium the licence fee was called *"Taxe speciale sur les bénéfices exceptionels réalisés à l'occasion des mesures des contingentement"*.[1] The fee was not levied on all products but its name indicates the object of its introduction.

In the Baltic countries the authorities charged annual lump sum fees varying at times according to the usual turnover of the importer. In Lithuania 300 lits had to be paid by importers, customarily handling up to 20,000 lits worth of imports per year, 600 lits if the turnover fluctuated between 20,000 and 50,000 lits, and progressively up to 3,600 lits if the turnover was higher than 500,000 lits.[2] Latvian importers also were charged licence fees varying progressively with the value of annual imports: from 300 lats for 5,000 lats of turnover up to 12,000 lats for 2,000,000 lats of turnover.[3] In Estonia the lump sum licence fee was first fixed at 450 kr., but soon raised to 1,000 kr.[4]

The fact that in these countries lump sum fees took the place of charges on each licence, as was the custom in the more important quota countries, seems to imply that the authorities wanted to prevent a further increase in prices in the case of monopolized importation. For if the importer of a given restricted commodity enjoys a monopoly, a unit tax will have the same effect as a rise in his cost curve, i.e. it will be to his advantage to charge a higher price in order to maximize his profits. A lump sum tax, on the other hand, will not induce him to change the existing price. If his total profits were at a maximum before the introduction of the tax, the remainder of his profits will still be largest if he remains at the same position where he has to make the payment.

The author has not been able to find any evidence for the presumption that the authorities have chosen lump sum fees in order to prevent import monopolies from raising their prices in response to the licence tax. There can be no doubt, however, that if it is the policy of a government to collect some or all of the extra profits arising from import restrictions, lump sum

[1] See *Circulaire ministerielle du 3*, iii, 1933, reprinted in *Bulletin du Comité Central Industriel de Belgique*, Bruxelles, 24th May, 1933.

[2] See *Eildienst*, 4th March, 1935.

[3] Ibid., 23rd November, 1934.

[4] See *Industrie und Handel*, 7th November, 1931. See also Chapter XII.

fees will be the better method. By this method possible monopoly profits may be appropriated, as well as the extra profits of competing importers.

In all countries with quantitative import control the authorities have attempted to counteract by further measures the two chief effects of the original restrictions, i.e. the increase in domestic prices and the special profits accruing to privileged importers.

The second of the two effects was to some extent counteracted by licence fees. But since it was generally believed that such charges would be passed on to consumers and would thus raise prices still more (one of the notable exceptions to this rule was Belgium), they were never fixed at a very high level. The best way to appropriate most of the special profits would be to introduce a tariff which, were it applied alone, would restrict imports somewhat less than the existing quota. By allowing this lag the tariff would not immediately become protective in the event of a decline in domestic demand (or a rise in the foreign price). For if the tariff before the decline in domestic demand (or rise in the foreign price) has absorbed *all* of the special profit, any such change will cause losses to importers and the result will be a decline in imports; the tariff restricts imports below the level of the quota and has thus become protective. If, on the other hand, the tariff is fixed below the point where it would absorb all of the special profit, a fall in domestic demand (or rise in the foreign price) will not reduce the quantity imported but only the amount of the special profit. To avoid the tariff becoming itself the protecting agent, frequent adjustments of its level would be necessary. This necessity for frequent adjustment renders full efficacy of this policy very difficult in practice. Yet even if the condition that almost the entire profit be absorbed while the tariff does not itself become protective is not always fulfilled, it may still be worth while to employ this measure in order to bring about a more just distribution of the amounts which would otherwise go as extra profits to certain privileged importers.

In the prevention of the other of the two chief effects of quantitative import restrictions—the maintenance of higher domestic prices—governments have been even less successful than in the case of special profits. The most important measure, i.e. the prohibition of the trade in licences, did not bring about the desired result since the attack was not levelled against the right cause. As all measures against the trade in licences had

no effect on domestic prices some governments attempted to prevent higher prices by direct price control.

The chief examples for price control of quantitatively regulated import commodities are in Switzerland, Greece and Italy. In the case of the first of these countries, the main effect of the establishment of governmental control of prices was a deeper understanding of the economic effects of import control and particularly the realization of the tendency towards monopolistic combination to which it gives rise. The actual cases of interference on the part of the Swiss Government seem to have been of relatively small importance. With the exception of successful reduction of prices in certain monopolized articles (petrol, tyres and tubes), the objects of government interest hardly deserve mention.[1] In Greece decrees of price control were enforced in the autumn of 1932.[2] To what extent they were actually successful is not known. Nor have any cases of actual reductions, once the price had risen, come to the author's knowledge in the case of Italy. Although it may be expected that the authorities have attempted to prevent prices from rising as soon as the restrictions were introduced (reprisal quotas in 1931, further independent restrictions in May, 1934, and subsequently), a plea for price control on the part of the most important commercial paper in November, 1934,[3] seems to point to the failure of efficacious control, if indeed it existed officially before that time.

In general, price control may be successful if the authorities are dealing with cases of monopoly. For if a monopolist importer has found it to his advantage to reduce imports below the quantity stipulated by the quota, the fixing of a maximum price will induce him to increase imports. But even in this case the price cannot be reduced below the point which would correspond to the relation between a given demand and the restricted supply under competitive conditions, without *some* of the demand remaining unsatisfied. The established equilibrium price is that price at which all the effective demand may be satisfied. At a lower price the demand would be greater. But since this

[1] This statement is based on the information contained in the officia reports of the Swiss Government. The cases mentioned there concern tissue paper and tombstones, see XIth Report, pp. 262 et seq. Since the government would, naturally, have been interested in citing as many cases of successful price control as possible, it may be reasonably inferred that there have indeed been very few important instances.

[2] See *Industrie und Handel*, 4th August, 1932.

[3] See *Il Sole*, Milan, 9th November, 1934.

additional demand *cannot* become effective on account of the restriction of the supply, some consumers must either go without the commodity concerned or the available supply must be rationed.

In the case of raw material such rationing at the lower price is comparatively easy, given efficient government control. The imported raw materials no longer go to those who are willing to pay the highest prices, but are directed into those uses which are deemed to be most essential from the national point of view.[1] Rationing of retail commodities is less simple since most governments are disinclined to revive wartime memories by issuing rationing cards and, in the absence of such a system, retailers will always find methods to keep up their profits, either by increasing the prices of non-controlled commodities or by making the purchase of a controlled article ingenuously dependent on the purchase of other commodities.[2] The best proof of the failure of price control to be successful throughout is the fact that in comparison with " free " countries prices have [3] remained higher in the countries which had resorted to quantitative import control.

The final outcome of import restrictions (with the reservation concerning temporary protection to spare the national economy a double adjustment and certain other exceptional cases [4]), must always be a reduction in the material standard of living. What *can* be achieved by secondary measures, however, is a more just distribution of the almost inevitable losses.

[1] This has been done quite successfully by the German authorities when, on account of exchange restrictions, the prices of certain raw materials tended to rise.

[2] Many examples of this kind of evasion of price control measures may also be found in the experience of Germany where in spite of the severe laws against such practices retailers have frequently used the method of compelling their consumers to take other commodities in combination with the article whose price they were not allowed to raise.

[3] See pp. 171–2.

[4] See *supra*, Chapter XII.

Chapter XVI

THE PRESENT TENDENCIES OF FOREIGN TRADE CONTROL

The technical development of quantitative restrictions came to an end at a comparatively early stage. The problems of method, such as the distribution of licences among individual importers, the consideration of seasonal and secular changes in demand all arose from the beginning of control, and the different countries solved them with various degrees of success. From the point of view of the technique of limitation, there is no need to speak of present tendencies. But what of the application and the scope of quantitative control in general?

In so far as the application of control is concerned, one definite tendency may be observed which, in the case of some countries, began at a very early stage of quantitative regulation, but the full force of which only made itself felt within the last few years. That is the tendency to use quantitative control as a means of obtaining certain objects of foreign commercial policy. Switzerland used quotas in this way from the beginning of her regime of import control. Other countries justified the introduction of quantitative import restrictions by pointing to the greater efficacy of such measures as weapons of foreign commercial policy. But it would not be correct to speak of the beginning of a definite tendency in this direction before the years 1933–4 when France and Holland resorted to quota restrictions with particular objects of external commercial policy in view.

In January, 1934, *France* began to operate a new system of quotas, the so-called "*contingents de reciprocité*". The principle of the new policy was that of compelling foreign countries to offer relaxations of their own restrictions in exchange for the permission to import into France up to the extent of existing quotas. France was to allot 25 per cent of the present importable quantities in the same way as before, but in order to obtain the remaining 75 per cent, exporting countries had to show a more lenient attitude towards their own imports from France. Existing trade treaties were denounced and new ones, based as

much as possible on the new principle, were negotiated in their place. The Italian convention was the first to be denounced, and subsequently thirty-four new treaties were made.

The application of the new system turned out to be much more difficult than was expected. Naturally the disputes with Great Britain, the United States and Germany were the most serious. Nevertheless, the bargaining principle of quota restrictions has remained [1] and has spread from France to those countries which, if only half-heartedly, still considered quantitative restrictions as emergency measures.

In *Holland* the first proposals to reduce import quotas and induce foreign countries to bargain for a restitution to their former level were made at the same time as in France, i.e. in the autumn of 1933.[2] Indeed, the Netherlands began to operate the new bargaining principle before it can be said to have come into effect in France. By December, 1933, the first important quota reductions had been decreed. Some examples are the reduction of the quota for ladies' clothing down to 15 per cent of the average quantity imported during the period 1929–1931, for stockings and socks from 100 per cent to 60 per cent of 1930–1, of that for rugs from 75 per cent to 40 per cent of the same period, and of the quota for electric wiring from 75 per cent to 65 per cent of 1930–1. These were the minimum figures, to be raised through bargaining. Germany was quick to make a new treaty and her Dutch quotas did not fall very much.[3]

While it had formerly been a Dutch practice to treat all countries equally, by the end of 1934 discrimination had become the general rule. In the spring of 1935, the Dutch Minister of Commerce, v. Stanberghe, declared that "import quotas have primarily to serve as a means towards getting better terms in commercial treaties".[4] Although at the end of 1936 another representative of the Dutch Government admitted that the Dutch policy of commercial bargaining by means of quantitative restrictions had not been very successful,[5] the use of quotas as weapons of foreign commercial policy was not given up again once it had been introduced. Thus with the system of commercial policy on the basis of quantitative restrictions firmly established

[1] See F. A. Haight, op. cit., pp. 91–111 for a detailed analysis of French foreign commercial policy and the attitude of successive governments to the use of quotas in international negotiations up to the year 1935.
[2] See *Industrie und Handel*, 21st August, 1933.
[3] See *Industrie und Handel*, 29th December, 1933.
[4] See *Berliner Tageblatt*, 2nd March, 1935.
[5] See *Economist*, 12th December, 1936.

in the three important quota countries (France, Holland, and Switzerland), the bargaining principle became the general rule and the tendency is still (1937) growing.[1]

At present it is difficult to say whether or not the scope of quantitative restriction is still widening. Although it would seem that the period of devaluations of the currencies of the gold bloc countries has now, with the last French devaluation (June, 1937), come to an end, the devaluations have not yet brought about stable conditions. Since, on account of the attitude of French capital owners, it is more difficult than ever to prophesy the consequences of devaluation, it cannot yet be said whether the last reaffirmation of protection in France implies a maintenance of quantitative restrictions until an indefinite future. In the face of the continuation of French quota control, the minor relaxations of quantitative restrictions cannot be considered as a general tendency towards an increasing freedom of international trade. Nevertheless some closer inquiry should be made into the development of the scope of quantitative restrictions during the last two years.

During the whole period of quantitative import restriction, the suggestion has been made at different times and in different countries to replace quotas by tariffs. The fate of this suggestion, which would have reduced the scope of quantitative import regulation, was similar to that of the proposals—designed only to change the technique of quota control—for auctioning import licences instead of distributing them according to certain principles. Had they been put into force both these proposals would have reinstated price as a determining factor in trade. While auctioning of import licences never became actual practice, the return to tariffs from existing quotas was effected, for some time at least, in a small number of unimportant countries,[2] and in some exceptional cases in France, Switzerland and Holland. There cannot be said to be a definite tendency in this

[1] See also *World Economic Survey, 1935–6*, League of Nations, pp. 187–8, 202, for this aspect of quantitative regulations.

[2] *Latvia* increased her tariffs on a very large number of import commodities in the summer of 1932 and simultaneously suspended licences for the goods affected, see *Lettländischer Regierungsanzeiger Nr. 152*, 12th June, 1932. But by January, 1933, it had been decided to reintroduce quotas, see *Industrie und Handel*, 2nd January, 1933. In *Estonia* the short-lived import monopoly boards were also abolished in 1932 and many goods formerly under the import licensing regime were subjected to tariff increases. But in some cases the tariff increases were so large (sometimes 400 per cent or even 600 per cent) that they must have restricted imports more than the former quantitative restrictions; see *Industrie und Handel*, 30th May and 2nd June, 1932.

direction. The certainty—from different points of view—of the effects of quotas [1] are still regarded too favourably to allow for any reversion to the old system of customs duties.

During 1935 and the first half of 1936 there was still a tendency for the severity of quantitative regulations to increase. For example in France, although the number of new quotas instituted during the year 1935 was smaller than that of quotas withdrawn, the importance of the newly protected articles was greater than of those no longer subject to quantitative limitations. While new quotas affected such goods as oranges and other fruit (27th April), certain silk and rayon tissues (11th May and 28th July), refrigerators and cream separators (15th May), lead and zinc (4th April), the commodities freed from quota restrictions in 1935 consisted mostly of such things as artificial birdlime, antique pottery, certain accessories for stringed instruments and ecclesiastical robes. During the same year a number of agricultural quotas were stiffened so that on the whole the French system entered the year 1936 stricter than ever before.

The last phase of quantitative import restriction to be considered falls into two definite periods: 1936 before the devaluations by the gold bloc countries and 1936–7 after the devaluations. Before 26th September, 1936, the day depreciation was allowed to proceed in France, Holland and Switzerland, few changes took place in the import quota regimes of Continental Europe. There were a few isolated instances of changes from a quota to a customs duty [2] and of some other relaxations of existing restrictions.[3] At the same time there were cases where existing restrictions were made more severe. In July the Federation of British Industries urged the Board of Trade to take action against Belgium's new quotas on rayon yarns and internal combustion engines.[4] Difficulties arising out of the desire to tighten certain restrictions led to the renunciation of the existing trade agreement between Holland and Switzerland in the same month.[5] On the whole, therefore, there existed during the first half of 1936 a tendency for quantitative restrictions to increase rather than to decrease.

There can be no doubt that the tendency towards more and increasingly severe import restrictions did come to an

[1] See *supra*, Chapter V.
[2] See *Board of Trade Journal*, 23rd July, 1936, p. 154 (France).
[3] See *Board of Trade Journal*, 13th August, 1936, p. 243 (Switzerland).
[4] See *Manchester Guardian. Commercial*, 24th July, 1936, p. 64.
[5] See *Board of Trade Journal*, 30th July, 1936.

end for some time after the devaluations of September, 1936. The hopes cherished at the time of the changes in currency policy were not fulfilled. The intended reductions of existing control were much greater, and the high sounding declarations concerning the advantages of a rebirth of Free Trade much more impressive than the actual policies at the end of 1936 and the beginning of 1937.

There was a spirit in the right direction as witnessed by the endeavour to revitalize the Oslo Convention of 1930,[1] but the actual results of this spirit were very small. Much was made from time to time of tariff reductions. But unless the quotas affecting the same goods were suspended at the same time, the reduction in the tariff did not ease trade but (provided that the quota was effective hitherto) the much heralded move towards freer trade had no other effect than to increase the profits of importers. The enthusiasm arose from the false idea that a quota with a tariff is more protective than a quota without a tariff. France reduced her tariff rates all around in October but the reductions did *not* apply to goods for which quotas were suspended.[2] With the exception of the widening of the total quota of motor car chassis in October, the doubling of the British coal quota in December, 1936, and the larger quotas for certain fruits and other foodstuffs[3] until some time in 1937, the scope of the French system of quantitative restrictions remained largely the same as in former years,[4] and indeed the principle of quota regulation as the essence of French commercial policy was reaffirmed in the summer of 1937.

At the end of September Prime Minister Colijn declared that his " Government (was) wholeheartedly prepared to co-operate in all efforts designed to abolish (import) restrictions . . . without, however, cherishing any excessively optimistic expectations on that score ".[5] Still, Holland made a good beginning. In October the restrictions on quite a large number

[1] See, for example, the leading article in the *Economist* of 1937 (February).

[2] For more detailed information on all the changes described in the text see different numbers of the *Board of Trade Journal*, September, 1936, until February, 1937.

[3] On 27th November, the quotas for honey and barley (brewing purposes) were increased.

[4] Of the less important quota suspensions after the first devaluation following may be mentioned. In October, 1936: horses for slaughter, lactic flour with sugar, chick peas, canary seed, sawn walnut wood ; in February, olive oil. In January, 1937, the quotas for printing paper and men's clothing were favourably modified.

[5] See *Economist*, 3rd October, 1936.

of products were withdrawn including the quotas on linoleum, wood furniture, woollen blankets, certain leather goods and sheet zinc. Outer clothing for men, women and children (if containing rubber) followed in November. But in that same month the sad prophecy of Herr Colijn came true for his own country. All import restrictions (with the exception of those on the articles just mentioned) were reintroduced, to last again for another year, i.e. until 31st October, 1937. In December the Dutch Minister of Commerce announced that "judging by the present state of affairs it will not be possible for the time to withdraw any quota restrictions". Emphasizing his point he added: "If it is necessary, an aggressive commercial policy will be pursued."[1] Translated into action, this point of view resulted in the addition of some new quotas during the same month.

The only quota country which made a real, though relatively unimportant, stride towards the freeing of existing barriers was Switzerland. Here, too, a considerable number of tariff reductions must have tended to increase the profits of importers. In November, 1936, quotas were withdrawn for a long list of manufactured products including furniture, glasswares and many machines.[2] Further relaxations followed at the beginning of 1937, and to the author's knowledge there have been no increases of quantitative restrictions after devaluation, nor has the principle as such of quota regulation been reaffirmed in Switzerland in the way this has officially been done by the governments of France and Holland. Notwithstanding this relatively favourable development in Switzerland, the final conclusion concerning the present trend of quotas must be that there is no general tendency for the scope of quantitative import regulation to decrease.

While in the case of quantitative regulation there has been no more continuous development of technique after about 1933, certain definite tendencies may be observed in the control of imports through currency restrictions. The two most important developments in exchange control are

(a) The growing number of systems of official exchange premia and
(b) The growing number of clearing agreements.

Neither of these tendencies has *in the end* led to less control on the part of the state, and certain important additions to

[1] See *Economist*, 12th December, 1936.
[2] For detailed information, see *Board of Trade Journal*, July–December, 1936, p. 888.

the number of exchange control countries in 1936 have increased the proportion of world trade under the control of currency restrictions.[1] Taking into consideration the possibility that even France may yet introduce certain exchange restrictions, it would not be possible to speak of a tendency for the scope of exchange control to decrease.

The growing practice of central banks paying premiums on foreign currencies sold to them by exporters and charging such premiums on their sales of foreign exchange to importers put many systems of exchange control on a more economic basis. The central banks, in fact, gave a legal status to value relations between the national and foreign currencies which were similar to, or the same as, those which had existed in the so-called " black " markets. If the reasons for particular price tendencies in the black market were known, the central bank could adjust its own new premium rates in such a way as to reduce the illegal trade to negligible proportions. Judicious manipulation of the rates may even result in a more fundamentally right price of foreign currencies since, once the system is legal, many temporary factors, such as risk of punishment, are removed.

The development of systems of official premiums began with discrimination between the premiums for different imports and different sources of supply, but there is now a definite tendency in the countries which have introduced such systems towards a unification of the percentage rate which importers have to pay on the par values of foreign currencies. The fixing of surcharges for imports (and premiums for exports) corresponds closely to a reduction in the gold content of the currency unit.[2] Were conditions normal, i.e. were there not a tendency in many countries towards a flight of capital on account of political reasons, the *fixing* of premia might not be so good a step as a free depreciation followed by stabilization, once there is reason to believe that a situation has been reached approaching equilibrium more closely than before. But under conditions where the strain on currencies would be increased enormously by irregular exports of capital, the system of premiums and surcharges appears to be the best possible step.

Hungary introduced such a system in December, 1935. Importers from the United Kingdom, the United States,

[1] In spite of the enormous number of restrictions in the world, around 54 per cent (1935) of world trade (gold value) is still " free."

[2] In Rumania, apart from other premiums, this has actually been done by increasing the price of gold by 30 per cent.

Holland and the Scandinavian countries paid 53 per cent (before the 1936 devaluation), while for other gold currencies (including those of the countries with which Hungary had clearing agreements) lower rates were charged.[1] In *Rumania* the general rate since 1935 which importers had to pay on a number of "strong" currencies was fixed at 12 per cent. *Yugoslavia* also introduced a system at the beginning of 1935, according to which importers were charged 28·5 per cent on foreign currencies for imports.

Bulgaria occupies a unique position with respect to the present tendencies of exchange control. In this country the method of "private compensation" developed more than elsewhere. The principle of this system is that individual import transactions must have as a counterpart an export transaction of the same value. Despite all the difficulties and inconveniences of such a regime, it may lead to the most economic relations between the prices of the national and foreign currencies, *provided* the authorities permit the payment of premiums by importers to exporters. Through this form of adjustment of foreign exchange rates *Austria*, by legalizing the rates established in the "private compensation" market, gradually moved out of exchange control. There is a possibility that Bulgaria will follow the same course.

Had this tendency towards a more economic value relationship between different national currencies and foreign currencies been accompanied by a simultaneous relaxation of import restrictions a definite tendency towards more freedom in international trade might have been discerned in so far as the development of exchange control is concerned. Once a surcharge is introduced the legal restrictions on imports need no longer be so severe as before, since the higher price of foreign currencies in itself reduces the demand. But if exports are stimulated at the same time, the demand for imports will rise again. Protectionary restrictions—as distinct from those introduced for currency reasons only—must therefore be maintained. Discrimination between different types of imports will still exist, in any case, and although on the basis of the new currency values (brought about by the premiums and surcharges), it would be possible to achieve a more stable international equilibrium, the desire to maintain those forms of economic activity which have grown up behind the shelter of exchange control

[1] See *World Economic Survey, 1935-6*, League of Nations, pp. 206–7, for Hungary and other exchange control countries.

prevents in most cases the relaxation of import restrictions and therefore the return to a greater degree of international specialization.

The second tendency within the system of exchange control is an increasing resort to state clearing agreements. To some extent an increase in clearing agreements means a partial return to common sense between pairs of exchange control countries restricting each others' imports on the ground of a " shortage of foreign exchange ". So far so good. But the direction of trade into *new* channels for the only reason that governments prevent its flow into the *right* channels is not an advantage.[1] On the other hand, a tendency for the numbers of clearing agreements to increase also implies a tendency for the difficulties which exporters encounter with respect to payment of their shipments to become greater. The new clearing agreements concluded by Great Britain within the last year have grown out of such difficulties.

During the initial phases of the exchange clearing system the new form of settling international accounts frequently implied a relaxation of trade barriers by both partners. However, the effects of clearing in generally rendering bilateral balances of the country under exchange control less favourable (if the clearing was concluded between a " free " country and an exchange control country) have induced central banks or other authorities in charge of foreign trade regulation to exercise the same control over importers' payments into clearings as over their payments in foreign exchange. The initial tendency of greater freedom in trade through a large number of interstate clearing arrangements soon came to an end.

The other method of maintaining a favourable balance for the exchange control country with its particular clearing partner, under which there was allocated for imports from the strong country a fixed percentage of the exports to this country (Germany's agreements with Great Britain, Belgium and France) implies as much control of imports as any other system of foreign trade regulation. On the whole, therefore, the tendency for the number of exchange clearings to increase does not give rise to an increase in the freedom of international trade.

[1] On exchange clearing see League of Nations inquiry and Dr. P. Einzig's book, *Exchange Clearing*, London, 1935. Although Dr. Einzig's book is decidedly too optimistic (from the point of view of the possibilities of clearings as a means towards more stability in international economic relations) and fails in the analysis of the economic problems of the operation of clearing, it gives a good account of the reasons for their introduction and the technique of their operation.

The scope of currency restrictions on commodity trade has not fallen during the last year and shows no signs of falling in the remaining part of 1937. True, at the end of 1936 Czechoslovakia decided to release about 30 per cent of its controlled imports from the existing restrictions.[1] But the total number of countries under exchange control increased earlier on in the same year. In April both Poland and Yugoslavia joined this group of countries—Poland for the same general reasons as induced the majority of agricultural countries to impose exchange restrictions in 1931,[2] Yugoslavia in order to increase the power of the state over the direction of the country's foreign trade.

There is, then, a definite movement towards an increase in governmental control of this field of economic activity and national states are, to an increasing extent, using their newly won powers as means through which concessions may be extracted from foreign countries. The range of possible points of negotiation in matters of international economic exchanges has increased, as well as their importance from the point of view of the effectiveness of governmental control. If a government has the power to carry through a policy which may begin with the complete exclusion of a foreign product from the domestic market and end with effective control of internal production, the influence of foreign commercial policy of one state on the economic life of another is much greater than under conditions where the most that may happen is the raising or lowering of a tariff, subject to parliamentary approval.[3]

On the basis of the new methods of foreign trade control analysed in this book, many governments have attained not only the possibility of controlling the economic activities of those under their immediate jurisdiction, but also the power to make their policies more effective by exerting a profound influence on the actions of other states. The conditions, therefore, for an effective regulation of foreign trade according to some preconceived plan are present. The ability of a given country to induce other countries to act in a certain way, either by bargaining or by

[1] See *The Economist*, 2nd January, 1937.

[2] See Chapter VI.

[3] An illustration of the extremes to which modern trade war is liable to be carried is the action of Switzerland against Italy in 1935. When Italy introduced her new system of complete import control in February of that year and reduced certain quotas down to 10–35 per cent of the quantities imported in 1931, Switzerland answered with a complete prohibition of *all* imports from Italy which actually lasted for about two weeks.

carrying out a policy which leads *faute de mieux* to certain foreign actions (like the liquidation of their German clearing debts by countries like Greece and Yugoslavia) depends of course on the power and importance of the country concerned. In technical language, it depends on the extent to which such a country is either in a monopolistic or monopsonistic [1] position. Assume, for example, the case of a country which, like Great Britain, is able to influence most profoundly by its own policy the actions of a country like Denmark, but which is not confronted by a series of isolated " Denmarks " alone, but also by a number of countries with the same or similarly strong bargaining powers. In this way we eliminate the case of a country which might, as it were, form itself into a discriminating monopoly for the whole range of the products which it might decide to sell or buy abroad. Although even in this case it is by no means a necessary outcome of its policy that its standard of living will be increased beyond the level obtaining under full international specialization, the problem becomes a different one from that of the general case and would only lead away from the central question, which is this. Given the possibilities of controlling foreign trade according to some preconceived plan :

(*a*) What are the probabilities that such a plan, under conditions as they are, will be designed in the interests of the mass of consumers, and

(*b*) To what conclusions will the present inquiry lead us concerning the suitability of quotas and exchange regulations as instruments of control under a predominatingly " liberal " system of economic organization ?

Quantitative import control, and to some extent exchange restrictions, have generally been introduced in order to protect the existing economic activity of a particular section of the community. The effects of such protection, though initially favourable from the point of view of the particular branches of industry or agriculture, in many cases have spent themselves out before long and, in so far as communities as a whole are concerned, the final result has generally been a rise in the cost of living without a corresponding increase in the wage level. These results (on the whole reached empirically) are, of course, the natural consequence of the extreme reduction in international specialization which trade regulation has brought about. The question now is whether these consequences are the necessary

[1] A monopsonist (a term introduced by Joan Robinson) is a single buyer confronted by competing sellers.

result of any regulation of international trade and, if not, what are the probabilities that a regulation of a favourable kind (from the point of view of the mass of consumers) be introduced under the present system of economic organization.

Those who believe that the economic conditions of the community as a whole may be improved by a conscious plan operated by a central authority are apt to welcome any form of state intervention in private enterprise not *obviously* designed to reduce the relative share accruing to wage earners and recipients of salaries. Upholders of this point of view are in a symmetrical position to those who deplore any sort of state intervention save the maintenance of law and order. Both schools, if they can be called such, *frequently fail to judge each particular form of intervention on its own merits.* In this way, according as to whether the adherents of the one or of the other school have the greater influence over the government of the country, many forms of intervention or " plans " are not carried out although they would be to the advantage of the community as a whole, while others which have the opposite result are put into operation. Both sections of thought believe that their actions will benefit the people of the country, but both policies are the result of an adherence to principle rather than of an application of reason to the *particular* case in hand.

Foreign trade, as one of the possible fields of government control, is no exception to this rule. It depends on the *type* of regulation which is put into force and on the construction of the plan which is to be followed, whether the control of foreign trade will benefit the community or not. This is an admission that there may be forms of international trade regulation which will tend to benefit the mass of consumers of the country which has resorted to such control.

As we mentioned earlier, we are excluding the exceptional case of a country acting as a discriminating monopoly. We are also excluding the case of a completely planned economy. We are dealing with a democratic country in which private enterprise is the predominating form of economic activity. Under conditions then where reliance is placed on the competitive system to bring about, temporarily and spatially, the application of effort and resources to those forms of economic activity (i.e. the production of goods and services) where they earn the highest return, there are indeed few types of the regulation of international trade which may be called beneficial from the point of view of consumers as a whole. Nevertheless, there are

some. One whole group of them is concerned with preventing the effects of monopoly, another group is concerned with attempts to prevent the spreading of depression from one country to another.

Governmental control of international trade through restrictions on imports may be able to reduce the harmful effects of monopoly within the system. A plan of the control of international trade may conceivably be established which, consisting of a complicated structure of restrictions (and possibly subsidies) is designed to reduce the disadvantages of monopoly to the extent that this may be done by intervention in foreign trade. There are a considerable number of such cases, but a description of them, which would necessarily be technical, falls outside the scope of this inquiry. Take only two examples.

In the theoretical section of Chapter XI a case was discussed where the imposition of a tariff increased the domestic production of the monopolized industry. The advantages of increased employment during a period of some unemployment may be greater than the losses arising from the higher price which consumers have to pay after the imposition of a tariff. Under conditions of a discriminating monopoly (selling at a higher price at home than abroad), it may be advantageous from the point of view of the country in which the monopoly is situated to induce the foreign country to restrict the importation of the commodity produced by its own monopolized industry.[1] The monopolist may thereby be obliged to sell a greater quantity at a lower price at home.

Although the cases which are concerned with imperfect competition (and where government intervention in the field of international trade would be beneficial from the point of view of the community as a whole) are clear in theory, it would be extremely difficult to discover them in practice and to introduce the necessary legislation. The fact that they are conceivable, and that in theory they can be dealt with to the benefit of the community, justifies their inclusion in this book.

The second group of plans for international trade control concerns attempts to prevent the spreading of trade depression. As a defence against an avalanche of cheap imports from the initially depressed area, a system of foreign trade regulations constitutes a much more dangerous instrument in the hands of a government than in the case of control mentioned above

[1] For some reason, the state may not want to interfere, with the monopoly industry in some other way.

Whether or not *temporary* protection will be beneficial from the point of view of the controlling country depends primarily on the causes of the trade depression in the exporting country. If, for example, the decrease in import prices was due to sudden large scale liquidations of stocks, on account of a severe restriction of credit, caused by an internal or external monetary panic, it will most probably be to the advantage of the importing country to stem the influx of cheap commodities. For in this case it may not be very long before prices will rise again with a return of confidence in the exporting country. In such a case the controlling country has been spared a double process of adjustment which might have resulted in losses greater than the temporary gains to consumers on account of cheaper prices for certain imported commodities.[1]

On the other hand, the decrease in import prices may have been caused, not by a sudden and temporary failure of confidence in the exporting country, but by a process of general liquidation of malinvestment within the depression phase of the trade cycle which led to a permanent decrease in the costs of producing certain export articles. In this case, protection on the part of the importing country would be an obstacle to attainment of a new position of international equilibrium. The approach towards this new position of international equilibrium necessarily implies a more or less painful process of adjustment. But the probabilities are that, once this position is reached, the altered character of international specialization will be of greater benefit to the importing country than a state of affairs where attempts have been made to maintain the existing character of economic activity. At the same time there is still room for the regulation of international trade. By judicious measures of protection whose severity is *gradually* reduced, it may be possible to reduce the painfulness of the adjustment process to some extent.

What are the chances that the types of planning foreign trade described will actually be introduced? As far as regulation in the monopoly cases is concerned it is difficult to put it into practice even if the intention to do so is present. Is there a greater possibility of success in the case of the second group of control systems? This question must unfortunately also be answered in the negative for the following reasons.

[1] Actually the case is somewhat more complicated. For the monetary crisis may have occurred as *part* of a general depression. The argument still holds good if the involuntary restriction of credit reduced prices more than the liquidation process of the general depression.

In the first place it is not always possible to decide whether or to what extent a fall in import prices has been caused by a sudden liquidation of stocks (at a loss) or by a fall in the costs of production which is likely to persist. Therefore, not only the question of the beneficial result of temporary protection as such, but also the question of its degree is difficult to answer. The right guess is as probable as the wrong one, so that it cannot be stated definitely whether the introduction of a system of import regulation will or will not be to the advantage of the mass of consumers of the controlling country.

But even if we assume that the authorities are in a position to form an accurate judgment as to the causes of the decline in import prices (and as to the different causes in the cases of different commodites) there are a number of further reasons why they will probably not be able to operate the restrictions in a way advantageous to the community as a whole. The first reason is this. If it is a question (as it probably would be under the conditions assumed) of differentiating between different industries in order to obtain the necessary result, such discrimination will be extremely difficult in a regime of democratic representation. For, if temporary protection is granted to some industries, the authorities will not be in a very strong position to refuse it to others.

This tendency for the number of restricted products to increase, once some industries have been granted protection, has been observed in many quota and exchange control countries.[1] The initiative for increased protection does not always come from the side of Capital. Especially under conditions of unemployment, it is easy to convince Labour to agree to further restrictive measures. Thus, on account of the difficulties of limiting protection to certain industries, the plan—were it constructed on the right lines—tends to be spoiled from the outset.

Similar arguments apply to the possibilities of limiting protection temporarily. The problems are in fact the same as those encountered in the case of the protection of "infant industries". Although, on account of the possibility of changes in technical knowledge after the new production has been carried on for some time, something may be said in favour of this kind of protection, experience has proved that infant industry protection has usually come to stay once it has been introduced. Similarly, the temporary and gradually decreasing protection proposed here in

[1] See particularly Chapter II.

order to reduce the painfulness of a necessary process of adjustment has little chance of being lifted again because of the vested interests it has helped to maintain.

Thus, in the case of a sudden and temporary decrease in import prices the plan will tend to be spoiled on account of the inclusion in the control system of products whose prices have decreased for reasons other than the liquidation of stocks, or of articles whose prices are intentionally raised in order to increase employment. In the other case, the probability of a beneficial operation of the control plan is reduced by the difficulty of limiting the time and degree of protection to the extent necessary to decrease the painfulness of adjustment.

The second main question which may be answered on the basis of the results of this inquiry is whether (assuming that the authorities are in the rare position of being able to introduce a beneficial plan of import control) quotas and exchange control are suitable methods of operating such a plan. This question has two aspects. One is concerned with economic mechanisms, the second with economic justice.

First, the purely economic problem. In the case of those forms of international trade control concerned with preventing the effects of imperfect competition there may conceivably be certain combinations of demand and costs which lend themselves to beneficial treatment by quota or exchange restrictions. The case considered in Chapter XI showed that a tariff will lead to the desired increase in domestic production, while a quota will have no such effect. On the somewhat artificial assumption that the relevant data are known to the authorities, each case would have to be considered on its own merits. However, the probability is that a tariff would bring about the desired result rather than a quota or exchange restriction.

As far as the economic mechanism in the other "beneficial" forms of international trade control is concerned, the answer to the question whether the new measures are suitable for the purpose of control may be stated in more direct terms. A definite distinction may be made between the effects of quotas and those of exchange restrictions. If it is a question of maintaining the domestic price of a given commodity at the existing level, or rather preventing any downward changes in the foreign price from influencing the domestic price, a quota is the ideal instrument. No fall in the foreign price, however drastic, will have the slightest effect on the domestic price.[1] Neither a tariff nor

[1] See Chapter XI.

an exchange restriction will isolate the domestic price from the effects of movements of the foreign price. Whether this favourable result (from the point of view of the given end) brought about by a quota is considered of smaller importance than the unfavourable effect which a quota will tend to have from the point of view of social justice, depends on the relative valuation of the two effects on the part of the control authorities.

If, on the other hand, the control o' foreign trade is introduced in order to reduce the painfulness of the process of adjustment of certain internal to certain external prices, part of the success of the plan depends on the gradual decrease of the price of the restricted commodity in the home market. A quota will not allow such a decline to take place. The choice will therefore lie between an exchange restriction and a tariff.

It may be well to restate, at this juncture, the results concerning the suitability from the point of economic mechanism of exchange restrictions and quotas as instruments of foreign trade regulation

(1) The probability is that tariffs are more suitable regulators in the case of a plan designed to prevent certain effects of imperfect competition.

(2) Quantitative import regulation is the only form of foreign trade control which will completely isolate the domestic from the external price of the restricted commodity. It is, therefore, the only suitable instrument of control to be used in connection with a plan designed to protect national industry from a *temporary* influx of foreign commodities at lower prices in order to spare the economy a process of double adjustment.

(3) Exchange control, as opposed to quantitative import regulation, is a suitable instrument of control to be used in connection with a plan designed to reduce the painfulness of adjustment of the national economy to a relatively permanent fall abroad in certain costs of production.

From the point of view of economic justice, exchange restrictions may be considered *a* suitable instrument of control in one case, while in another case quantitative regulation constitutes the *only* adequate measure of attaining the given object. In the first of these cases a tariff will also bring about the desired result, and is in fact preferable to an exchange restriction. In the quota case there is no certainty that the substitution of a tariff will be advantageous to the community.

Why is a tariff to be preferred in the first case? Chapter XIV showed that exchange restrictions result in extra unit profits, i.e. possibly in special benefits, to the importer. On purely

economic grounds there is no reason why the spending of the extra profits by importers should be considered less advantageous from the point of view of the community as a whole than the spending of the same amount through the government after the funds have been collected in the form of tariff payments. But a government which is concerned enough about the needs of the community to make an effort to put through the sort of plans indicated here may be expected to be in a position to expend the amount in question in a more desirable way socially than private importers would be able to do.

Apart from the effects of exchange restrictions in the form of special benefits to importers, any licensing system increases a tendency towards monopoly. Even the prohibition of traffic in licences may not entirely prevent the formation of monopolies after control has been put into force. On the basis of still limited powers of the state,[1] exchange restrictions and quotas tend to lead to special benefits to the importers, either through the appearance of extra profits or through the forming of monopolies.

Therefore if the choice lies between exchange restrictions and tariffs (with the ends postulated) tariffs are to be preferred. If the choice lies between achieving the desired result completely by a quota and only partly by a tariff, the problem amounts to a choice between failure to achieve a given end entirely and the possible creation of a new social injustice.

The final conclusion of the present study is this. In devising plans of foreign trade control beneficial to the community as a whole tariffs can always and with advantage be substituted for exchange control, but the general suitability of quotas is uncertain even in the few cases of their economic justification. Therefore the new methods of regulating foreign trade do not deserve the support of those who have the well-being of the community intelligently at heart.

[1] See p. 251, point (*b*).

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